2008 ANNUAL REPORT

AlbertaCentral

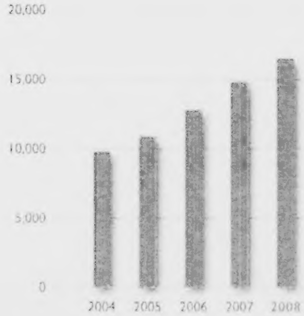
Credit Union Central Alberta Limited

AlbertaCentral

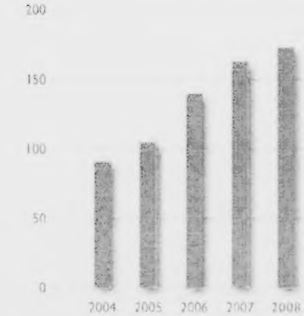
Credit Union Central Alberta Limited

Credit Union Central Alberta *2008 Annual Report*

system *financial highlights*



($ millions)
ALBERTA CREDIT UNION
ASSETS



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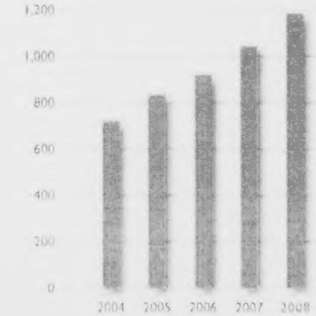
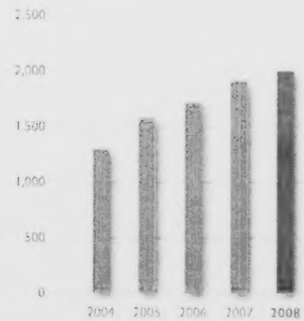
ALBERTA CREDIT UNION
EARNINGS

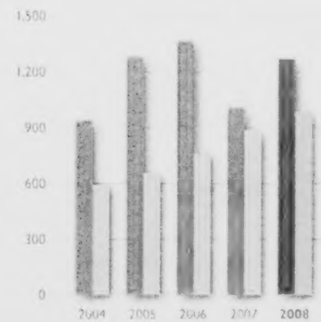


($ millions)
ALBERTA CREDIT UNION
EQUITY

central *financial highlights*



($ millions)
**ALBERTA CENTRAL
ASSETS**



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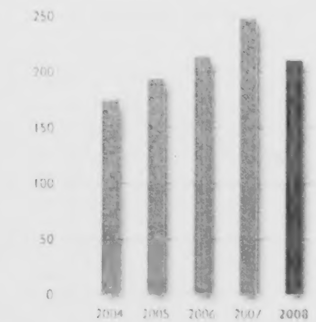
**ALBERTA CENTRAL
LIQUIDITY**
ACTUAL
REQUIRED



($ millions)
**ALBERTA CENTRAL
MEMBERS' EQUITY**

After many years in the credit union system, I am, now more than ever, proud to be a part of such a resilient, grounded, and socially responsible group of financial institutions.

message from the *chair*

G. Penny Reeves
Chair of the Board

Over the past few years, the extremely vibrant Albertan economy has provided exceptional opportunities for growth, and we have prospered on its strength.

In 2008, at a time of uncertainty in the markets, the Alberta credit union system maintained its stability and was able to demonstrate steady financial performance throughout the fiscal year. Thanks to our system's track record of strong financial performance, growing deposit base, sound portfolio of loans to Albertans, and prudent capitalization levels, we were able to withstand the financial and economic turbulence of 2008.

Nevertheless, we believe we have not seen the full impacts of the current downward economic cycle and we expect 2009 to be an even more challenging year. Over the years we have taken cautious steps to ensure our system is well capitalized, and I am confident that the wise management of our system combined with healthy liquidity levels have positioned us well for what the coming years may bring.

Alberta Central plays an important role in supporting the market success of credit unions in Alberta through the products and services it provides to the credit union system. This year, as always, we continued to look for ways to provide increasing value to our member credit unions.

During 2008, the Board and management of Alberta Central, SaskCentral and Credit Union Central of Manitoba renewed discussions to pursue the opportunity to form a new amalgamated central. By the end of the year, the three centrals entered into a Memorandum of Understanding and immediately began working together to develop a business strategy for the creation of a new merged prairie central. Concentra Financial is also engaged as an important participant in the development of the business strategy, and along with the prairie centrals, is working to complete the strategy for presentation to credit unions in September 2009. To meet the future needs of our member credit unions, we believe that our combined strengths will expand our capacity to provide the services that credit unions need in order to continue to grow and meet the service needs of their members.

I would like to take this opportunity to acknowledge the hard work and commitment of my fellow Board members, and to thank them for their wise counsel and support over the past year, particularly as we work through the plans for a new prairie central.

On behalf of the Board, I would also like to recognize Graham Wetter for a very successful completion of his first year as the President & CEO of Central as well as the team at Central for their commitment to our mission, values and strategies, as they help our credit unions prepare for the future.

Penny Reeves

G. Penny Reeves
Chair of the Board

When we look back at 2008, it was in so many ways a challenging but exciting year.

message from the *president & ceo*

Graham Wetter
President & CEO, Alberta Central

We have made some great progress at Central on strategic initiatives, but we have also witnessed some historic economic events.

The turmoil in the markets has certainly presented some new challenges and has been cause for some concern. Unfortunately, this year, Alberta Central had to take a further provision on our asset-backed commercial paper holdings, in the amount of $65.4 million. Due to this provision, Central has recorded a net loss of approximately $37.8 million for 2008. The good news is that the asset-backed commercial paper has been successfully restructured and that most of these investments still have strong credit ratings. With Central's intent to hold the notes to maturity in order to maximize their value, positive future fair value adjustments to these instruments could arise over the term to maturity to the extent financial markets stabilize.

Aside from the provision, Alberta Central performed very well financially in 2008, exceeding our budgeted financial margin by $2.7 million and budgeted net operating income by $7.4 million. This was due primarily to stronger than budgeted results from Celero Solutions. Banking system conversion costs and eroWorks® banking operating expenses were both significantly less than budgeted for the year. During 2008, the Celero owners realigned their respective shares of the operating results from each business line in Celero. This change, combined with the lower conversion and eroWorks® operating costs, contributed to an overall positive budget variance of $4.2 million. Results from Everlink were also significantly better than budget as an anticipated write down of goodwill in Everlink was not required. This had a positive budgetary impact of $1.8 million. Finally, a $6 million gain from the disposition of the remaining merchant acquiring business of the CUETS joint venture and a $1.5 million positive variance on CUETS operating results also contributed to the better than expected results from our joint ventures. System assets continued their strong growth in 2008, and Central's assets reached over $2.0 billion with the corresponding credit union liquidity investments in Central.

We also measure our success by some key non-financial performance indicators. An important part of what we do and the level of success our organization achieves is determined by the strength of our leadership, the engagement of our people, and the quality of our products and services. This year, our member credit unions, staff and board scored Central as a very strong performer in these areas.

While we continue to keep a watchful eye on the economy in 2009, Alberta Central and its member credit unions remain well-positioned to manage through the economic cycle.

2008 Highlights

Employee Engagement

To enhance the commitment to our people and add to the success of our overall business strategy, one of Central's areas of focus over the year has been on employee engagement initiatives. Our priority in 2008 was on leadership and communication, and I am pleased to report that since the

beginning of last year, we have made significant improvements, with staff engagement measures reaching industry benchmark levels.

To continue to provide strong leadership and direction for our organization, we have provided additional leadership and supervisory training for our managers, and completely revised Central's performance review and reward processes.

As well, we are making greater efforts to share information on the state of business operations, our plans and strategies, and major initiatives so that our staff are better informed and committed to organizational priorities.

At Alberta Central, we continue to focus on positive change and the steps we need to take, as an organization, to implement these changes. We believe our people are the driving force behind the service quality and innovation we provide to our member credit unions. Thanks to the hard work and dedication of many people, we have made great strides towards making Central an even better place to work.

eroWORKS®

2008 marked the first year of Celero-led eroWORKS® Retail Banking System implementations under Project Meta, the largest technology project ever undertaken in the credit union system in Canada. Key Savings & Credit Union in Calgary led the way with the first of the 2008 implementations in May. In total, 30 implementations were completed across the Prairies with seven credit unions converting to eroWORKS® in Alberta.

For Celero, Project Meta is the organization's number one corporate priority. Nearly one-third of the organization's work-force is dedicated to the project with over 200,000 hours logged to date. Celero's goal is to complete Project Meta by December of 2010, at which time 114 prairie credit unions will be on the eroWORKS® platform.

For a financial institution, a tremendous amount of skill, effort and preparation are required to ensure a successful banking system converson. Alberta credit unions are showing their resiliency and commitment as many credit unions share resources in order to prepare, build their knowledge and complete their conversions successfully. This spirit of co-operation has served our system well. The eroWORKS® implementations that occurred in 2008 were very effective, with minimal disruption in service to members. As a result, Alberta credit unions remain well positioned to conclude their eroWORKS® implementations ahead of schedule in 2010. When project Meta is completed, 23 Alberta credit unions will be using this system.

2008 Review

Merger of Servus, Community and Common Wealth Credit Unions

This year we witnessed the biggest credit union merger to happen in our system's history: the amalgamation of Servus, Community and Common Wealth credit unions. Combined, the new credit union, now known as Servus, represents approximately 58% of our system's assets. The merger, which became effective November 1st, has created Alberta's first province-wide credit union, serving members across Alberta. The new Alberta-wide credit union offers a great opportunity to strengthen the credit union system as a competitor in the provincial marketplace.

There has been an ongoing trend of consolidation among Alberta's credit unions, and this has resulted in increasingly larger credit unions and more concentration of system assets within the large credit union group. These are important developments for our system and Central, and one of Central's priorities in 2008 has been to ensure there is a good understanding and alignment between Servus Credit Union and Central on major issues affecting our system.

Prairie Central

As a result of the ever-changing business environment in which we operate, one of my primary focuses in my first year as President & CEO was to ensure that Central is well prepared to respond to these changes and to ensure that Central continues to offer high-quality and competitive service solutions to our member credit unions. In 2008, we made ground-breaking steps towards the formation of a new prairie central. The signing of a Memorandum of Understanding between the centrals in Alberta, Saskatchewan and Manitoba last September represented a very important milestone in the history of prairie credit unions.

Looking ahead to 2009, we will be focusing on some core initiatives to stay current with the changes happening in our industry.

As the centrals, along with Concentra Financial, complete a business strategy for the new organization, the potential of this opportunity becomes increasingly apparent. We believe that a merger of the centrals will allow us to enhance the services we provide to the credit unions in Alberta and across the prairies. We are confident that this initiative will open doors and create new opportunities for the system. Joining together, we will be able to build on one another's strengths to expand our capacity to deliver the services our credit unions need to continue growing and meeting the expectations of their members.

TECP

Over the last few years, CUPS Payment Services has been working to implement the industry-wide image-based clearing project known as Truncation and Electronic Cheque Presentation (TECP). This major industry-wide initiative, led by the Canadian Payments Association (CPA), was intended to further improve the efficiency of Canada's cheque clearing process and to facilitate the introduction of a variety of image-based services to businesses and consumers.

Unfortunately, last year, after extensive review of the project, a decision was made by the CPA's board of directors to discontinue work on this project. The announcement came as a disappointment, given that CUPS Payment Services had completed all pre-implementation work for this initiative. CUPS Payment Services has been offering many image-based services to credit unions since 2002, and credit unions and their members will continue to benefit from the innovative image-based services CUPS has already established.

Priorities for 2009

Looking ahead to 2009, we will be focusing on some core initiatives to stay current with the changes happening in our industry.

Prairie Central

2009 will be an important year for the prairie central initiative as we work towards finalizing the business strategy for the merger of the centrals in Alberta, Saskatchewan and Manitoba.

Once the centrals and Concentra Financial have completed the proposed strategy, the expectation is that the business strategy document will be sent to the central and Concentra Boards for review in June. Following Board approval, the document will be shared with credit unions as well as other system stakeholders in each province. This will leave time for the centrals to consult and gather feedback from credit unions and revise the strategy as required, with the hopes of gaining approval of the proposed strategy by the end of 2009.

Delegates will then be asked to vote on the amalgamation early in 2010, and assuming it is supported by credit unions in all three provinces, implementation plans would commence between April and December 2010, and the new prairie central would be officially implemented January 1, 2011.

Liquidity Management

Over the past year and a half the global financial industry has seen an unprecedented shortage of liquidity, exacerbated by disruptions in financial markets. The Alberta credit union system has not been immune to these challenges. At the time of the market disruption, credit unions were enjoying a year of tremendous growth, where loan growth outpaced deposit growth by a significant margin. Over the years, the funds available through Central's liquidity programs have been more than adequate to meet the credit union system's needs, and Central has had significant liquidity in excess of the statutory requirement. While the system maintained adequate liquidity, even throughout the period when lower levels were experienced in late 2007, liquidity levels in the system have since returned to more moderate levels, and reviewing the liquidity program has become a priority for Central management, credit unions and regulators alike.

In 2009, Alberta Central will continue with a proactive liquidity review that commenced in late 2007 in order to strengthen its capabilities as liquidity manager. The review entails enhancing reporting and monitoring processes to better track large cash flows within the credit union system, which are increasingly concentrated in the largest credit unions. The review also entails strengthening Central's liquidity forecasting and scenario analysis

processes, and reviewing the adequacy of current liquidity requirements in the credit union system. Throughout 2008, credit unions improved liquidity levels by funding their loan growth through increased deposit growth; while this will continue to be a priority for the credit union system, Central will also be evaluating additional sources of funding on behalf of the system in 2009, and will be reviewing how credit unions access liquidity through Central's loan program.

International Financial Reporting Standards

By 2011, International Financial Reporting Standards will become mandatory in Canada.

Alberta Central has already commenced work on this major financial reporting conversion. Between now and 2011 a considerable amount of effort will be required to assess and plan the changes which need to take place for Alberta Central and its joint ventures. These changes will require cross-functional organization-wide teamwork to ensure Alberta Central and its joint ventures are fully compliant at various key conversion milestone dates leading up to the 2011 mandate.

National work teams have been formed from provincial centrals and credit unions across the country to support the development of practical tools, templates, guidance and other materials tailored to the needs of the credit union system. The work teams are addressing the anticipated important issues affecting credit unions and centrals related to IFRS conversion: financial instruments; securitization; loan loss provisioning; business combinations; property, plant, and equipment; lease originations; and employee benefits.

In 2009, developing the information and tools to support credit unions in converting to this standard will continue to be on the forefront of Central's activities.

Chip Card Implementation

Alberta Central, Credit Union Central of Canada, Everlink, Celero and other provincial centrals, have joined together to create a national project team, designed to ensure a smooth and successful transition to the chip-enabled environment for credit unions. The group is aiming to exceed Interac Association deadlines for the introduction of chip technology by having 95% of cards and 100% of ATMs chip-enabled by the end of 2010.

The chip card conversion project is a significant undertaking for the Alberta credit union system, which will bring to consumers a number of benefits, including greatly reduced risk of fraudulent use of debit cards, the potential to add multiple card functions on a single card (i.e. debit and credit), loyalty points tracking, and even wireless payment services.

Already well on its way, Conexus Credit Union in Regina recently became the first credit union in Canada to process a chip card Interac transaction. Conexus agreed to be the pilot organization for implementing chip card technology on MemberCard debit cards and Global Payment Cards for credit unions across Canada.

TILMA

The Trade, Investment and Labour Mobility Agreement (TILMA) can serve as a successful means to enhance financial services access for Albertans, provided the Government of Alberta levels the competitive playing field for Alberta credit unions by addressing significant legislative advantages available to B.C. credit unions.

Given the importance of this matter, Alberta Central will continue to work closely with the Government of Alberta to facilitate implementation of TILMA for financial services and enable Alberta's credit unions to compete on a level playing field in the Alberta and B.C. marketplaces.

Graham Wetter
President & CEO, Alberta Central

management's *discussion & analysis*

Barry Johnson
Executive Vice President

Anne Gillespie
Vice President, Financial Reporting and Control

Alberta Central and its joint ventures provide leadership and support to credit unions through a variety of products and services.

This section of the annual report, providing management's discussion and analysis (MD&A) of the consolidated results of operations and financial condition of Credit Union Central Alberta Limited ("Alberta Central"), should be read in conjunction with the audited consolidated financial statements as at and for the year ended December 31, 2008. The consolidated financial statements are reported in Canadian dollars and have been prepared in accordance with Canadian Generally Accepted Accounting Principles (GAAP). This MD&A is dated March 6, 2009 and provides comments regarding Alberta Central's core strategies, financial and operating results, risk management and business outlook.

Caution Regarding Forward-Looking Statements

This annual report includes forward-looking statements. By their very nature, such forward-looking statements require management to make assumptions and involve inherent risks and uncertainties. A number of important factors, many of which are beyond management's control, could cause actual future results, conditions, actions or events to differ materially from the targets, projections, expectations, estimates or intentions expressed in forward-looking statements. These factors include, but are not limited to, changes in general economic conditions in Canada, particularly those in Alberta, including interest rates, currency values and liquidity conditions; the effects of conditions in the credit union system which Alberta Central

serves; changes in the legislative or regulatory environment; and Central's success in managing the risks inherent in these factors. We caution readers that the foregoing list is not exhaustive. Alberta Central does not undertake to update any forward-looking statements contained in this annual report.

Core Business Profile

The delivery of services that support system development is one of Alberta Central's core strategies. As the primary liquidity provider and trade association for Alberta's credit union system ("the system"), Alberta Central and its joint ventures provide leadership and support to credit unions through a variety of products and services.

Alberta Central's treasury and lending departments work closely together to manage the statutory and excess liquidity deposits and demand and term funding requirements for Alberta credit unions. They are responsible for maintaining a stable earning asset base while providing for the borrowing needs of credit unions and their members. Alberta Central's commercial paper program which is rated R-1 (low) by Dominion Bond Rating Service (DBRS) provides access to capital markets. While its core treasury and lending services are designed to meet the financing, liquidity and growth needs of the system, Alberta Central also provides foreign exchange, derivative and syndicated loan program services.

With a 50% ownership interest in the CUPS Payment Services (CUPS) joint venture, Alberta Central supports the payment and settlement operations for the Alberta credit union system. Operations include processing of paper-based deposits and clearings and electronic services such as automated funds transfers, cheque and document imaging and wire transfers.

Through its interest in Celero Solutions and Celero's interest in Everlink Payment Services Inc., Alberta Central supports information technology solutions for credit unions, including banking system and switching system development and maintenance, related network and infrastructure support, desktop support and help desk services.

Alberta Central is governed under the Canadian Co-operative Associations Act of Canada and the Credit Union Act of Alberta, and is regulated federally by the Office of the Superintendent of Financial Institutions Canada (OSFI) and provincially by Alberta Finance and Enterprise.

Economic Environment

Turmoil in the financial markets, volatile commodity prices and the onset of a global recession are some of the defining events of 2008, particularly in the latter half of the year. Several large financial institutions worldwide were subject to regulatory supervision, restructuring and takeovers, stemming from tight liquidity conditions and investment and loan write downs. Consumer and business confidence waned with much uncertainty surrounding the outlook for the Canadian and global economy. Policymakers embarked on several measures aimed at injecting capital and liquidity into the financial system in an effort to restore stable financial markets and curb the global recession. In Alberta, economic conditions also deteriorated.

Growth

The developments of 2008 resulted in slower rates of economic growth in Alberta relative to that of previous years of economic boom. According to the provincial government, real gross domestic product (GDP) for Alberta is estimated to have increased by 1.5% in 2008 compared with growth of 3.3% in 2007. This largely reflected declines in output from goods-producing industries. Service industries, including finance and insurance, public administration and community, and business and personal services, held their ground.

Mining/Oil and Gas

Drilling activity in Alberta slowed in 2008, partly due to uncertainty surrounding the impact of the new royalty regime, compounded by a drastic decline in oil prices in the second half of the year which resulted from lower demand for oil due to the global economic downturn. This adversely impacted the Albertan economy by not only lowering the level of government revenue received from energy royalties but also reducing the level of investment into the province, as energy companies delayed the implementation of major petroleum capital projects.

Agriculture

Agricultural production in Alberta increased marginally in 2008, largely as a result of growth in crop production. During the first half of 2008, farm cash receipts from crops rose while those for livestock declined. Exports of agricultural products also grew.

Housing

Housing starts declined in 2008 due to economic uncertainty and an excess supply of homes for sale. Over the past two years, new home construction has exceeded demand, resulting in a rise in inventories. Housing starts for both single detached homes and multifamily homes fell in 2008. The softening in demand for housing is partly attributable to weaker net migration as fewer workers seeking employment migrated to the province. Over the past few years, existing home sales had declined as house prices escalated to unaffordable levels for many consumers. In 2008, the average resale price declined somewhat but remained above historic levels.

Labour Market

The tightening of the labour market over the past several years has placed upward pressure on wages, leading to growth in disposable income. Employment in Alberta was estimated to have increased at a slower rate (2.8%) in 2008 relative to previous years, though growth in employment remained the highest among the provinces in Canada. The unemployment rate increased slightly to 3.6%, the lowest among all Canadian provinces. In 2008, labour shortages persisted as full employment conditions continue to exist.

Consumer Spending

Growth in consumer spending in Alberta slowed in 2008, falling behind all other provinces. However, on a per capita basis, Albertans still spent more than any other province. Consumer sentiment also declined due to the uncertainty surrounding the economic outlook and contributed to the slower growth in consumer spending.

Interest Rates

Consistent with world leaders' commitment to revive the global economy, the Bank of Canada provided monetary stimulus to the Canadian economy through a series of interest rate cuts which occurred mainly in the last few months of 2008. The final interest rate reduction for 2008, and one of significant magnitude, took place on December 9, 2008. The Bank of Canada lowered its target for the overnight lending rate by 75 basis points to 1.5%. The Bank Rate was correspondingly reduced to 1.75%. This policy stance was a strong indicator that Canada was facing an economic recession, and the Bank of Canada moved to take decisive actions by providing additional liquidity to the financial system, with the hope of stimulating the economy.

Exchange Rates

The Canadian dollar has shown a strong positive correlation to the price of oil, particularly in 2007 when the loonie appreciated significantly due to rising oil prices. The currency broke the relationship somewhat during the spring and summer months of 2008 as commodity prices soared while the loonie remained slightly below par with the US dollar. The relationship strengthened again in the last quarter of 2008 when the price of oil fell dramatically. The depreciation of the Canadian dollar was, however, also a result of the appreciation of the US dollar as investors purchased US securities in a flight to safety amidst the global financial crisis.

2008 Performance

Alberta Credit Union System[1]

Alberta credit unions supported the growth in the economy early in 2008 through the provision of financing, however, the economic slowdown in the latter part of the year had a moderating impact on the strong asset growth previously experienced by the credit union system. For the fiscal year ended October 31, 2008, credit unions' assets grew 11.5% to $16.5 billion.

1 Alberta credit union system financial information has been provided by Credit Union Deposit Guarantee Corporation, the regulator of the provincial credit union system. Alberta Central has not verified the accuracy or completeness of this information. All credit union system financial information is based on a fiscal October 31 year end.

Alberta Credit Union System – Growth

Years ended October 31	**2008**	2007	2006
Total assets *($000's)*	16,486,946	14,787,091	12,773,936
Asset growth	11.5%	15.8%	17.0%
Deposit growth	14.2%	12.9%	17.3%
Loan growth	10.2%	19.1%	17.1%

In fiscal 2007, the credit union system saw loan growth dramatically outpace deposit growth, resulting in a decline in overall liquidity levels. In fiscal 2008, the credit union system focused on growing member deposits to fund loan growth. In addition, the slowing economy in the latter stages of 2008 appeared to encourage increased consumer savings rates as members chose to save their additional disposable income rather than increase consumption. As a result, the balance of growth shifted from loans to deposits.

Alberta Credit Union System – Loans

Years ended October 31	**2008**		2007		2006	
(000's)	$	% Growth	$	% Growth	$	% Growth
Residential mortgages	7,261,545	3.9	6,985,804	23.7	5,649,368	20.5
Commercial loans	4,049,902	25.3	3,232,405	20.3	2,686,526	20.6
Consumer loans	1,914,114	13.3	1,689,282	7.7	1,568,280	6.6
Agricultural and other loans	709,941	(4.6)	743,876	2.9	722,646	5.1
Total loans	$13,935,502	10.2	$12,651,367	19.1	$10,626,820	17.1

Outstanding loans for commercial purposes rose by 25%, the largest percentage gain compared with all other lending categories. This was followed by consumer loans which grew 13%. Consistent with the downturn in the housing market, growth in residential mortgages slowed sharply to 3.9% compared with growth exceeding 20% in previous years. Agricultural and other loan balances declined slightly.

Delinquency levels reached 10 year lows in 2006 and 2007 and despite the economic slowdown in the latter quarters of 2008, the credit union system performed well from a credit risk perspective. As a percentage of total loans, delinquency at October 31, 2008 increased 15 basis points to 0.45%. Residential mortgages accounted for 34% of total delinquency, followed by commercial loans at 31%, consumer loans at 20% and agricultural loans at 15%. The overall allowance for impairment remained relatively constant at 0.31% of average assets in 2008 compared to 0.32% in 2007.

Alberta Credit Union System – Operating Results

Years ended October 31	**2008**	2007	2006
Financial margin as a % of average assets	2.82%	2.86%	2.83%
Net income before taxes and patronage *($000's)*	173,032	162,674	159,566
Net income before taxes and patronage as a % of average assets	1.10%	1.18%	1.19%

Despite growth in loan and investment portfolios, the effects of financial turbulence and declining interest rates impacted Alberta credit unions through a reduction in financial margin. Reductions in the prime rate resulted in a full 22 basis points in margin compression as the cost of total deposits and borrowings decreased by 9 basis points from 2007 while loan and investment yields decreased 31 basis points. Fair market valuation of derivatives and derivative gains offset the impact of the net reduction in yield to some extent, however financial margins dipped from 2.86% of average assets in 2007 to 2.82% of average assets in 2008. Further reductions in the prime rate since the October fiscal year end of the credit union system are producing continuing margin compression.

As a result of an increase in operating expenses due to amalgamation costs incurred by credit unions, net income before income taxes and patronage dividends for the credit union system declined from 1.18% to 1.10% of average assets in 2008. Even in the face of declines in economic growth and additional costs incurred during the year, the credit union system surpassed all previous years' earnings, reaching $173.0 million of earnings before income taxes and patronage dividends.

Even in the face of declines in economic growth and additional costs incurred during the year, the credit union system surpassed all previous years' earnings.

Key Performance Drivers

The performance of Alberta's credit union system is a key driver of Alberta Central's balance sheet and the corresponding returns it produces. Statutory liquidity deposits at Alberta Central are a function of the Alberta credit union system's liabilities, and therefore growth in member deposits in the system translates to growth in Alberta Central's balance sheet. Lending levels from Alberta Central to credit unions typically fluctuate in tandem with lending activity at the retail level. Levels of activity of Alberta consumers affect payment volumes in CUPS and banking and switching volumes in Celero and Everlink.

2008 Performance – Alberta Central

Results of Operations

The results of operations provide management's commentary on the consolidated results of operations and financial condition of Alberta Central based on the audited consolidated financial statements as at and for the year ended December 31, 2008. Alberta Central reported a net loss of $37.8 million for the year ended December 31, 2008. This compares unfavourably to income of $41.4 million for the prior year. The main factor in the loss was a further reduction in the estimated fair value of asset-backed commercial paper (ABCP). This was partially offset by gains and earnings from the discontinued operations of CU Electronic Transaction Services (CUETS), a joint venture with Credit Union Central of Saskatchewan. Adjusting for the impact of the reduction in fair value of ABCP and the CUETS-related income, earnings before patronage dividends and income taxes were $9.4 million in 2008, compared to $10.3 million in 2007 and $12.2 million in 2006.

Alberta Central – Results of Operations

Years ended December 31 ($000's)	**2008**	2007	2006
Total assets	2,002,799	1,916,237	1,714,042
Financial margin	17,687	17,425	14,254
Net income (loss)	(37,796)	41,407	14,079
Net income before taxes and patronage – excluding ABCP and CUETS	9,423	10,326	12,201

The global economic slowdown and the deterioration of credit markets created additional hurdles in the restructuring of holdings of non-bank ABCP and contributed to significant reductions in the estimated fair value of the paper. The ABCP was successfully restructured in January 2009.

Financial Margin

Alberta Central's assets continued to grow in 2008 but with a change in the asset mix. Commercial and other loans continued to show strong growth, however credit unions relied less on Central to provide loans to fund their lending programs as they were able to fund their requirements from deposit growth. Consequently, Central's outstanding loans to credit unions declined while the investment portfolio grew as members deposited excess liquidity at Alberta Central. The increase in excess liquidity resulted in a reduction in Alberta Central's borrowings under Central's commercial paper program.

Alberta Central – Financial Margin

(000's)	2008 $ Average Balances	2008 $ Income/ Expense	2008 P = 4.82% Yield	2007 $ Average Balances	2007 $ Income/ Expense	2007 P = 6.10% Yield	2006 $ Average Balances	2006 $ Income/ Expense	2006 P = 5.76% Yield
Cash and securities	1,573,563	54,706	3.48%	1,335,135	59,958	4.49%	1,438,401	57,790	4.02%
Credit union loans	261,759	10,158	3.88%	267,229	14,129	5.29%	64,970	3,169	4.88%
Commercial and other loans	176,900	9,341	5.28%	134,671	6,718	4.99%	104,156	5,026	4.83%
Other assets	26,843		0.00%	30,698	6	0.02%	15,549	11	0.07%
	2,039,065	74,205	3.64%	1,767,733	80,811	4.57%	1,623,076	65,996	4.07%
Members' deposits	1,700,194	54,700	3.22%	1,442,368	60,599	4.20%	1,350,583	49,854	3.69%
Borrowings	52,683	1,818	3.45%	63,417	2,787	4.39%	50,329	1,888	3.75%
Other liabilities	39,035		0.00%	24,697		0.00%	12,932		0.00%
	1,791,912	56,518	3.15%	1,530,482	63,386	4.14%	1,413,844	51,742	3.66%
Common share capital	176,800	6,747	3.82%	176,377	10,760	6.10%	170,923	9,871	5.78%
Retained earnings and accumulated other comprehensive income	70,353		0.00%	60,874		0.00%	38,309		0.00%
	247,153	6,747	2.73%	237,251	10,760	4.54%	209,232	9,871	4.72%
	2,039,065	63,265	3.10%	1,767,733	74,146	4.19%	1,623,076	61,613	3.80%
Return on assets									
Before dividends		17,687	0.87%		17,425	0.99%		14,254	0.88%
After dividends		10,940	0.54%		6,665	0.38%		4,383	0.27%

Growth in the interest-earning assets on Central's balance sheet produced a financial margin of $17.7 million compared to $17.4 million in 2007 and $14.3 million in 2006. Similar to its member credit unions, Alberta Central experienced general downward pressure on net interest margins in the latter portion of its fiscal year as average prime declined from 6.1% in 2007 to 4.82% in 2008. Improvements in margins on commercial and other loans were the only exception to overall margin reductions.

Alberta Central generated a return on average assets before share dividends of 0.87%, compared to 0.99% in 2007 and 0.88% in 2006.

Provision for Credit Losses

The financial margin results (above) are before provisions for credit losses. Alberta Central maintains an allowance for impairment to absorb losses in its loan portfolios and regular management reviews of each loan are conducted to identify indications of impairment.

Alberta Central's loan portfolio is concentrated in Alberta. Its credit risk exposure across industry sectors, excluding loans to credit unions, is outlined on the opposite page.

Financial services income is generated from Alberta Central's joint ventures, ancillary treasury and lending services, purchasing, cash services, credit union audit services and Alberta Central's manuals program.

Alberta Central – Non-Credit Union Lending

Years ended December 31	2008		2007		2006	
(000's)	$	%	$	%	$	%
Finance and Insurance	50,184	25.0	49,102	27.5	25,590	23.9
Health Care	17,222	8.6	15,223	8.5	18,316	17.1
Hospitality	39,113	19.5	33,530	18.8	22,454	20.9
Real Estate	93,497	46.6	77,985	43.7	18,688	17.4
Retail	586	0.3	2,589	1.5	22,239	20.7
	200,602	100.0	178,429	100.0	107,287	100.0
Non specific allowance	(865)		(755)		(615)	
Total non-credit union lending, net	199,737		177,674		106,672	

Alberta Central's non-credit union lending portfolio grew significantly from 2006, which was more indicative of historical levels. This growth was concentrated within the finance, insurance and real estate sectors.

In spite of economic slowdown, Alberta Central had no loans that were past due or impaired at December 31, 2008, and consequently, did not record a specific allowance for credit losses on its loan portfolio. The current year increase in the non-specific allowance of $0.1 million was based on management's overall evaluation of risk in the commercial loans and mortgage portfolio in recognition of losses not specifically identified on an item-by-item basis.

Operating Income

In addition to its financial margin, Alberta Central earns operating income from its joint ventures, ancillary financial services, credit union member dues and various facilities, human resources and accounting services provided to its joint ventures. Operating income increased from $13.5 million in 2007 to $14.8 million in 2008.

Because Alberta Central has joint control of CUPS, the proportionate consolidation method is used to record Central's share of CUPS' operating results. This means that Central's share of both CUPS' revenues and expenses are recorded through Central's operating income and operating expenses. Conversely, because Alberta Central does not have joint control of Celero, and Celero does not have joint control of Everlink, the equity method of accounting must be used, which results in recording only Central's share of the net operating results of these entities.

Ancillary financial services include other sources of income, other than financial margin, from treasury and lending services, purchasing, cash services, credit union audit services and Alberta Central's manuals program.

The significant components of financial services income (Note 11) are outlined below.

Alberta Central – Financial Services Income

($000s)	2008	2007	2006
Credit Union Payment Services revenues	7,964	7,790	7,919
Equity loss in Celero Solutions	(5,415)	(5,873)	(1,478)
Foreign exchange and derivative revenues	1,542	1,644	1,135
Purchasing revenues, net of cost of goods	861	771	690
Cash services revenues	908	886	843
Other	831	628	651
	6,691	5,846	9,760

Revenues from CUPS increased 2.2% from 2007, primarily as a result of increases in transaction volumes. Alberta Central's share of the equity loss in Celero reflects the underlying income allocation methodology approved by the joint venture owners. The current year loss from Celero includes $1.4 million of conversion costs from the banking system conversion project. With Celero in the midst of this project, there is also some duplication in costs in the operation of four legacy banking platforms along with the new eroWorks® platform. In 2008, income of $1.9 million before depreciation (up $0.2 million from the previous year) from the Alberta legacy banking platform reduced Alberta Central's share of net operating costs from the eroWorks® platform. Everlink contributed earnings of $0.26 million, compared to $0.56 million in 2007, before interest costs charged by the joint venture owners on loans related to the Everlink/CGI switching business acquisitions. Financial projections for Celero show considerable improvement in earnings once the banking system conversion project is complete at the end of 2010.

Operating Expenses

Operating expenses include those relating directly to Alberta Central and also Alberta Central's share of operating expenses in CUPS. Operating expenses totaled $22.9 million, which were up from $20.4 million in 2007 and include personnel, property and equipment, administration and organization costs.

On October 14, 2008, the Board of Directors of the Canadian Payments Association (CPA) announced the termination of the Truncation and Electronic Cheque Presentment (TECP) image-based clearing project. As a participant in the project, previously capitalized development costs and costs required to terminate the project aggregating $1.3 million were determined to be impaired and were charged against 2008 earnings in CUPS. Alberta Central's $0.6 million share of these costs is included in operating expenses.

Increases in personnel costs reflect growth in Alberta Central's full time equivalents to expand service delivery to member credit unions. Increased organization costs were due to increased assessments from Credit Union Central of Canada of $0.4 million including Alberta Central's share of costs of the International Financial Reporting Standards (IFRS) Readiness for Credit Unions project.

Discontinued Operations

Prior to October 1, 2007, Alberta Central had a 50% interest in CU Electronic Transaction Services (CUETS), a credit card services entity. Effective October 1, 2007, the net assets related to the retail credit card business of the CUETS joint venture were sold to CUETS Financial Ltd., a wholly owned subsidiary of MBNA Canada Bank for an after-tax gain of $56.7 million. Effective January 1, 2008, the net assets related to the CUETS merchant acquiring business were sold to First Data Corporation for an after-tax gain of $5.8 million.

In conjunction with the sale of net assets related to the retail credit card business, the joint venture owners (Alberta Central and SaskCentral) entered into a non-competition and non-solicitation agreement which restricts them from issuing, holding or being a party to credit card business in Canada. This agreement is effective until September 30, 2011. Revenue received under the terms of this agreement has been deferred and amortized over the four year term of the agreement and will be approximately $1.2 million annually.

Share Dividends

Share capital dividends of $6.7 million were calculated and paid in 2008 using members' minimum monthly common share capital balances and the average monthly prime interest rate less one percent. In 2007, share dividends were calculated using the average monthly prime interest rate and totaled $10.8 million. Central's return on assets, after share dividends, improved to 0.54% from 0.38% in 2007 and 0.27% in 2006.

The payment of share dividends and the timing and amount of such dividends is subject to the discretion of the Board of Directors and depends on Alberta Central's financial results and general business conditions. Alberta Central has budgeted a 2009 share dividend based on the average monthly prime interest rate.

Liquidity and Regulatory Capital

As a percentage of credit union system assets, Alberta Central's liquidity reserves, when measured by year-end balances, were in excess of the requirements under both provincial legislation and the *National Liquidity Fund Agreement*.

Alberta Central is the prescribed liquidity manager for Alberta's credit unions. Alberta Central's by-laws require Alberta credit unions to maintain a minimum of 1% of their assets as share capital in Alberta Central. Credit unions are also required to maintain liquidity deposits at Alberta Central such that their total liquidity deposits and share capital held with Alberta Central comprise no less than 9% of the credit union's liabilities.

Alberta Central participates with other Canadian credit union centrals in a national liquidity arrangement. Under the terms of the governing *National Liquidity Fund Agreement*, participating credit union centrals are required to keep 2% of their respective provincial system's assets in segregated accounts of liquid assets and a further 4% of their provincial system's assets in certain qualifying liquid assets, a requirement which is already met by

Alberta Central's compliance with provincial legislation. The securities may be used to provide liquidity to any one or more of the participating centrals.

Alberta Central participates with other Canadian credit union centrals in a national liquidity arrangement.

Alberta Central's capital levels are regulated under federal guidelines issued by OSFI. Federal regulation requires Alberta Central to maintain a borrowing multiple (the ratio of debt to regulatory capital) of 20:1 or less. Provincial regulation overseen by Alberta Finance and Enterprise requires Alberta Central to maintain a borrowing multiple of 15:1 or less. For purposes of these multiple calculations, borrowings are comprised of members' deposits, loans and notes payable and certain derivative financial liabilities. Alberta Central's borrowing multiple positions are outlined below.

Alberta Central – Borrowing Multiple

Years ended December 31	**2008**	2007	2006
Alberta Central share capital and retained earnings *($000's)*	208,881	248,145	214,446
Borrowing multiple	9.0	6.7	6.7

In each year, Alberta Central's capital levels exceeded both its regulatory and internal capital requirements.

Internal Control over Financial Reporting and Prior Period Adjustments

There have been no changes in Alberta Central's internal controls over financial reporting during the year ended December 31, 2008, that have materially affected, or are reasonably likely to materially affect, Alberta Central's internal control over financial reporting. During the year, management of CUETS determined that the prior years' income in the joint venture was understated by $4.1 million and the financial statements of the joint venture have been restated. The comparative figures for 2007 in Alberta Central's audited financial statements have been adjusted to correctly reflect Central's share of the change in the assets and liabilities of discontinued operations, the increase in earnings from discontinued operations (net of income tax), and the increase in retained earnings.

Critical Accounting Estimates and Assumptions

Alberta Central's consolidated financial statements are prepared in accordance with Canadian GAAP as described in Note 1 to the audited financial statements. These accounting policies require management to make estimates and assumptions that affect reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the period. Actual results could differ from those estimates. Critical areas of estimation where management has made difficult, complex or subjective judgments, often as a result of matters that are inherently uncertain, include those relating to the provision for credit losses on commercial loans and mortgages and the change in estimated fair value of ABCP.

Current Year Changes in Accounting Policies

Effective January 1, 2008 Alberta Central adopted three new accounting standards which are contained in Canadian Institute of Chartered Accountants Handbook Section 1535 – *Capital Disclosures*, Section 3862 – *Financial Instruments – Disclosures*, and Section 3863 – *Financial Instruments – Presentation*.

The additional financial reporting requirements arising from these new standards are outlined in Note 1 to the audited financial statements and additional disclosure required as a result of the adoption of these standards is contained in Note 2 to the audited financial statements.

Future Changes in Accounting Policies

The Canadian Accounting Standards Board (AcSB) confirmed January 1, 2011 as the date IFRS will replace current Canadian standards and interpretations as Canadian generally accepted accounting principles (Canadian GAAP) for publicly accountable enterprises. Alberta Central will begin reporting under IFRS in 2011 with comparative data for 2010. IFRS uses a conceptual framework similar to Canadian GAAP, but there could be significant differences in recognition, measurement and disclosures that will need to be addressed.

Periodic updates detailing progress towards IFRS compliance are provided to Alberta Central's senior executives and to the Audit and Finance Committee. A more detailed analysis and evaluation of the financial impact of transitional issues will be completed in 2009.

Asset-Backed Commercial Paper

Alberta Central holds $224.5 million of non-bank ABCP which was outstanding at the time the Canadian market for this paper suffered a liquidity disruption in August 2007. At the dates of acquisition, these short term investments were in compliance with Alberta Central's Investment Policy and were rated R1 (High) by DBRS, the highest credit rating issued for commercial paper.

Eighteen months of negotiations concluded in January 2009 and the notes were restructured into three basic categories:

- ABCP backed solely by traditional assets ("traditional assets")
- ABCP backed by synthetic collateralized debt obligations or a combination of traditional assets and synthetic collateralized debt obligations ("synthetic assets")
- ABCP backed, in whole or in part, by US sub-prime assets or home equity loans that may be subject to significant risk of suffering losses ("ineligible assets")

Notes backed by synthetic assets were pooled with other investors into one of two newly created special purpose entities called Master Asset Vehicles (MAV 1 and MAV 2). Under the restructuring plan, credit facilities used to fund collateral calls ("Margin Funding Facilities") were established for each of MAV 1 and MAV 2 to further enhance the stability of the pooled assets by increasing the available additional collateral support which may potentially be called upon in the future. MAV 1 participants are funding their own pro rata share of the margin funding facility while in the case of MAV 2, a third-party margin funding facility has been established and funded by a group of third-party lenders. Investors' holdings in ABCP backed by traditional or ineligible assets were restructured separately in a third Master Asset Vehicle (MAV 3).

Alberta Central is a MAV 2 and MAV 3 participant. The non-bank ABCP held by Alberta Central was restructured into the following replacement notes:

Alberta Central – Non-bank ABCP

Notes Received	Rating	Underlying Assets	$ Face Value (000s)
MAV 2 Class A-1	A	Synthetic	99,550
MAV 2 Class A-2	A	Synthetic	57,168
MAV 2 Class B	Unrated	Synthetic	10,378
MAV 2 Class C	Unrated	Synthetic	5,168
MAV 2 Tracking notes	Unrated	Synthetic	10,036
MAV 3 Traditional	AAA, AA (high)	Traditional	27,675
MAV 3 Traditional	Unrated	Traditional	2,168
MAV 3 Traditional	Unrated	Traditional	5,307
MAV 3 Ineligible	Unrated	Ineligible	7,050
			224,500

DBRS has announced ratings on the restructured notes as outlined above. The rated notes benefit from subordination provided by the B notes in each class. Specifically, the MAV 2 Class B and Class C notes are subordinated to the MAV 2 Class A-1 and Class A-2 notes. Similarly, the rated MAV 3 notes are senior to a portion of the unrated MAV 3 notes.

In the absence of an active market for these notes, accounting standards require the holder to "mark to market" or fair value the notes using a probability weighted discounted cash flow model. Alberta Central's fair value modeling used discount rates based on forward-credit indices, adjusted for estimated premiums to reflect the expected lack of liquidity of the restructured notes. These indices are standardized, market-based indices compiled to reflect general credit quality conditions for similarly rated groups of companies. As a result, the discounted cash flow modeling incorporated both the risk that the notes will suffer actual credit losses and a discount reflective of the deterioration of the credit markets. As the fair value of non-bank ABCP has been estimated using a probability weighted discounted

cash flow model based on the assumptions noted above, it is reasonably possible that changes in conditions in the near term could require a material change in the estimated fair value. An increase of 25 basis points in the discount rate would result in a $2.9 million decrease in the fair value of the non-bank ABCP and a decrease of 25 basis points would result in a $3.0 million increase in the fair value of the non-bank ABCP.

Alberta Central's current year provision on non-bank ABCP was $61.4 million, bringing the total provision on these notes to $94.8 million. Further changes in either the credit quality of the underlying assets or in the market-based indices used to determine fair values will result in further fluctuations in the recorded values for these notes.

Alberta Central has investments totaling $22.8 million in two bank-sponsored ABCP investments which also suffered a liquidity disruption and were restructured in 2008. The restructuring plans were generally similar to the non-bank ABCP plans with the assets restructured into long-term floating rate notes to match the maturity of the underlying assets. These notes mature in approximately five to eight years, bear interest at rates ranging from CDOR to CDOR plus 35 bps and pay interest quarterly. One of the two notes has been rated "AA" by DBRS. A reduction of $3.9 million in the estimated fair value of these notes was recorded in earnings in 2008.

Total provisions of bank-sponsored and non-bank ABCP are summarized as follows:

Alberta Central – ABCP Provisions

		2007	2008	
($000s)	Face value	Provision	Provision	Total Provision
Non-bank ABCP	224,500	33,340	61,433	94,773
Bank ABCP	22,793	–	3,917	3,917
	247,293	33,340	65,350	98,690

These investments have been excluded from the liquidity calculations noted above. Alberta Central has and continues to operate within its legislated liquidity requirements.

Economic Outlook Beyond 2008

Alberta's economic growth is expected to contract in 2009 as a result of a sharp decline in business investments (which account for a quarter of Alberta's economy), a slowdown in non-conventional oil production, a further correction in the housing market and a moderation in the growth of consumer spending. The labour market is expected to temporarily moderate in 2009, with a decline in employment helping to contain wages that have risen well above the national average. The unemployment rate is forecasted to increase to an average of 5.8%. Moderation in wage earnings is expected to contain the level of growth in savings. Consequently, growth in deposits at Alberta credit unions and Alberta Central is anticipated to slow in 2009.

Further rate cuts by the Bank of Canada are unlikely, having reached 0.5% in early 2009. However, as the economy recovers, it is expected that interest rates will increase in order to remove any excess liquidity from the financial system. The outlook for the Canadian dollar will continue to be dependent on energy and commodity prices which are anticipated to rise in 2009.

Risk Management

Alberta Central recognizes risk management as one of its most important responsibilities. Risk is inherent in business and when managed appropriately is a source of growth and sustainability. Alberta Central's objective is to optimize risk for the protection and creation of member value. Optimizing risk means striking a balance between risk and reward, and at the same time ensuring that the company's risk-taking is consistent with its strategic plans and risk tolerance.

In order to meet risk management objectives, risks must be identified, understood, measured, assessed and managed on an enterprise-wide basis. Alberta Central is in the early stages of implementing an enterprise risk management framework which addresses these needs and is an integral component of Central's strategic plans. Alberta Central's risk management program is governed by the Board of Directors.

Central's risks are broadly categorized as follows: capital adequacy, credit, interest rate, foreign exchange, price, liquidity, corporate governance, operational, strategic, legal and regulatory. Experienced and qualified staff at Alberta Central manage each of these risk categories through compliance with established policies and procedures within delegated authority levels and limits. Internal audit reports independently to the Audit and Finance Committee of the Board on the effectiveness of the risk management policies and the extent to which internal controls are in place and operating effectively.

Risk categories are described in further detail below.

Capital Adequacy Risk

Capital adequacy risk is the risk of financial loss and/or regulatory intervention due to the failure of Alberta Central to maintain the prescribed capital base to meet regulatory requirements and/or the capital base necessary to support its business plans. Alberta Central's capital management processes anticipate the capital requirements and the sources that will be drawn upon to maintain the necessary level of capital throughout the year. Management regularly monitors and reports the levels and quality of the company's capital to the Audit and Finance Committee of the Board of Directors.

Alberta Central's capital position as at December 31 2008 is described in Note 2 to the audited financial statements.

Credit Risk

Credit risk is the potential for loss due to the failure of a borrower or counterparty to meet its financial or contractual obligation. Alberta Central is exposed to credit risk in its lending operations and in its investment activities.

Alberta Central's lending and investment policies addressing credit risk are reviewed and approved annually by the Board of Directors. Management regularly reviews credit procedures to ensure they provide relevant, appropriate guidance for the underwriting and administration of all types of loans. Alberta Central's lending activity is predominantly to serve the needs of Alberta credit unions and their members. Alberta Central's commercial lending activity is primarily as a secondary syndication partner with credit unions, however loans must meet Alberta Central's lending criteria without reliance on the due diligence process of any syndication partner.

Alberta Central employs and is committed to a number of important principles to manage credit exposures:

- A Credit Committee of the Board whose duties include approval of lending policies, establishment and delegation of loan limits and approval of larger credits;
- Delegated lending authorities, which are clearly communicated to personnel engaged in the credit granting process, a defined approval process for loans in excess of those limits and the review of larger credits by senior management personnel prior to recommendation to the Credit Committee of the Board;
- Employment of personnel engaged in credit granting who are qualified and experienced in lending;
- Lending policies which are communicated to employees whose activities and responsibilities include credit granting and risk assessment;
- Annual reviews of loans; and
- Independent reviews by internal audit, which includes reporting the results to senior management and Alberta Central's Audit and Finance Committee.

Alberta Central employs and is committed to a number of important principles to manage credit exposures.

Alberta Central maintains both specific and general allowances for credit losses. Specific allowances are established based on management's knowledge and review of individual loans. The general allowance exists to provide an additional reserve against possible volatility in future cash flows as a result of unexpected loan defaults. The general reserve for credit losses is raised to recognize that loans that are not currently in arrears have some probability of future loss, and that loans that are provided for may result in a higher loss due to changed circumstances. The general provision is calculated based on current non-delinquent credit balances, historical default probabilities and loss in the event of default rates.

Alberta Central's total exposure to credit risk as at December 31 2008 is illustrated in the table in Note 2 to the audited financial statements. At December 31, 2008, Alberta Central's total credit commitments were $1.9 billion. This represents a decrease of 2.5% from 2007 with most of the decrease in exposure from credit union loans. At December 31, 2008, Alberta Central had no loans that were past due or impaired.

Interest Rate Risk

Interest rate risk is the risk that interest rate fluctuations may erode Alberta Central's earnings and economic value. Alberta Central's balance sheet is comprised of interest-bearing assets and liabilities with different maturity dates which expose Alberta Central to interest rate risk.

Monitoring exposures to interest rate fluctuations and their potential impacts on interest margins is accomplished through interest rate scenario testing of assets, liabilities and equity against the effects of multiple possible interest rate increases and decreases. Alberta Central's interest rate risk policy defines specific tolerances for changes in net interest income and net economic value. Alberta Central also uses gap analysis and simulation modeling to analyze the effects of interest rate fluctuations on net interest income. This forecasting is then used in developing defensive strategies, where appropriate, to ensure any variations are managed within established tolerance limits.

The extent of Alberta Central's exposure to interest rate changes as at December 31, 2008 is illustrated in the interest sensitivity schedule in Note 2 to the audited financial statements.

Foreign Exchange Risk

Foreign exchange risk is the risk that Alberta Central's earnings will be negatively affected by currency fluctuations. Alberta Central's foreign exchange policies and procedures specifically identify the types of transactions permitted, authorizations, limits, and monitoring and reporting requirements. Alberta Central is authorized to hold up to US $5.0 million, £500,000 and €500,000 in excess of, or short of its foreign currency liabilities. Alberta Central's exposure to foreign exchange fluctuations is monitored on a daily basis and was within policy throughout the year. Alberta Central's net foreign exchange risk exposure is illustrated in Note 2 to the audited financial statements.

Other Price Risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. Alberta Central's most significant other price risk relates to its holdings of asset-backed commercial paper.

Liquidity Risk
Alberta Central is responsible for managing its own liquidity (including Alberta Central's portion of the *National Liquidity Fund*) as well as managing the liquidity pool for Alberta credit unions.

Liquidity risk is the risk of being unable to meet financial commitments through regular cash flows. Inability to meet financial commitments through cash flows can lead to losses as Alberta Central could be forced to raise funds at high costs or sell assets at reduced prices. For Alberta Central this means ensuring that managed assets must be available to meet its own needs as well as the needs of Alberta credit unions. Alberta Central has established policies to ensure the company is able to generate sufficient funds to meet all of its financial commitments in a cost effective manner as they occur. These policies are annually reviewed and approved by the Board of Directors.

Alberta Central's liquidity management policies and procedures include:

- Specific limits for types, amounts, and duration of investments;
- Investment dealer restrictions;
- Approved sources of deposit funds;
- Approved sources for borrowing funds;
- Monitoring actual cash flows on a daily basis;
- Forecasting future cash flow requirements;
- Scenario testing and contingency planning;
- Daily monitoring of liquidity position; and
- Quarterly reports to Alberta Central's internal Asset Liability Committee and the Board of Directors

Alberta Central's contractual maturities for financial liabilities are illustrated in Note 2 to the audited financial statements.

Corporate Governance Risk
Corporate governance risk is the risk of financial and/or reputational impairment caused by lack of effectiveness of the Board of Directors and senior management.

Alberta Central's organizational structures, policies and controls are designed to provide effective corporate governance. Effective corporate governance is attained through the diligence of knowledgeable and competent directors and senior managers.

Alberta Central's processes and procedures include:

- Director qualification and competency criteria;
- Thorough director orientation program;
- Ongoing director development and training;
- Regular Board and committee meetings, including the Governance Committee;
- Annual strategic planning process;
- Annual Board evaluation process; and
- Leadership development programs.

Operational Risk
Operational risk includes risk associated with the execution of the business process and legal and regulatory compliance risk.

Operational risk is the risk of loss arising from ineffective or failed internal processes, technology, and human performance or from external events. Its impact can be financial loss, loss of reputation, loss of competitive position or regulatory censure. Due to the nature of operational risk, it cannot be completely eliminated. Alberta Central manages operational risk through established policies and procedures, including:

- Programs aimed at attraction and retention of qualified staff;
- Active performance management processes;
- Encouraging and facilitating employee skill development;
- Employee code of conduct certification process;
- Ongoing implementation of enterprise risk management processes including development of business continuity plans;
- Development of effective policies and procedures;
- Clearly delegated authorities and limits;
- Ongoing program of internal audit of effectiveness of operations; and
- Regular review of insurance coverage to ensure adequate protection of insurable assets.

Nick Campbell
Treasury Analyst

Legal and Regulatory Risk

Legal and regulatory risk is the risk of loss due to failure to comply with legal and regulatory requirements.

Alberta Central's activities are subject to OSFI reviews and periodic on-site examinations by OSFI. All correspondence to and from OSFI relating to its reviews is reported to the Audit and Finance Committee and Board.

Alberta Central's Chief Compliance Officer maintains a legislative and regulatory compliance management system through which legislative and regulatory requirements are annually reviewed and reported on. The effectiveness of the controls and processes utilized by the Chief Compliance Officer are annually reviewed and reported to the Board by internal audit. New policies and procedures are developed to address legislative and regulatory requirements as appropriate. The Board of Directors receives an annual compliance report in which any deficiencies and corresponding action plans are identified.

Effective corporate governance is attained through the diligence of knowledgeable and competent directors and senior managers.

Strategic Risk

Strategic risk is the risk to Alberta Central's earnings or capital arising from business decisions or flawed implementation of those decisions. This risk is a function of the compatibility between the organization's strategic goals, the business strategies developed to achieve those goals, the resources deployed against these goals and the quality of implementation.

Alberta Central employs a number of means in order to ensure that its strategic plans are appropriate and relevant including:

- Biannual Peer Group meetings which are a forum established by Alberta Central to gather input from credit unions of all sizes regarding their needs and future direction;
- Participation by representatives of Alberta Central in various system committees and professional associations to keep abreast of the current environment;
- Processes to gather strategic planning input from members of Alberta Central's senior management team;
- Joint management/Board strategic planning sessions which are conducted annually; and
- Feedback surveys which are conducted annually to gather input from the Board of Directors, credit union clients, and Alberta Central staff. Action plans are developed based on survey results as appropriate.

Management's Responsibility for Financial Reporting

The financial statements of Credit Union Central Alberta Limited (Alberta Central) were prepared by management, who are responsible for the integrity and fairness of the data presented. Generally accepted accounting principles have been applied and management has exercised its judgment and made best estimates where deemed appropriate. Financial information appearing throughout this annual report is consistent with the financial statements.

Alberta Central's accounting and related financial controls are designed, and supporting procedures maintained, to provide reasonable assurance that the financial records are complete and accurate, and that assets are safeguarded against loss from unauthorized use or disposition. These supporting procedures include the careful selection and training of qualified staff, the establishment of organizational structures providing a well-defined division of responsibilities and accountability for performance, and the communication of policies and guidelines of business throughout Alberta Central. The system of internal controls is further supported by a professional staff of internal auditors who conduct periodic inspections of all aspects of Alberta Central's operations.

Both the federal and provincial regulators of financial institutions conduct examinations and make such enquiries into the affairs of Alberta Central as they may deem necessary to satisfy themselves that the provisions of the appropriate legislation are being duly observed and that Alberta Central is in sound financial condition.

The Audit and Finance Committee of the Board of Directors, composed entirely of outside Directors, reviews the financial statements before such financial statements are approved by the Board of Directors and submitted to the members of Alberta Central. The Committee reviews the audit plans of the internal and external auditors, the results of their audits and management's response to any identified recommendations for improvements in internal control. The Committee is also responsible for recommending the appointment of the external auditors to the Board of Directors.

PricewaterhouseCoopers LLP, the independent auditors, have examined the financial statements of Alberta Central in accordance with generally accepted auditing standards and have expressed their opinion upon completion of such examination in the following report to the members. The auditors have full access to, and meet periodically with, the Audit and Finance Committee to discuss audit matters.

February 19, 2009

Graham Wetter
President & CEO

Barry Johnson
Executive Vice-President

consolidated *financial statements*

Auditors' Report

To the Members of Credit Union Central Alberta Limited

We have audited the consolidated balance sheet of Credit Union Central Alberta Limited as at December 31, 2008 and the consolidated statements of operations, members' equity and comprehensive income and cash flows for the year then ended. These consolidated financial statements are the responsibility of Credit Union Central Alberta Limited's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of Credit Union Central Alberta Limited as at December 31, 2008 and the results of its operations and cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

February 19, 2009

PricewaterhouseCoopers LLP

Chartered Accountants
Calgary, Alberta

Alberta Central *Consolidated Financial Statements*

December 31, 2008

Consolidated Balance Sheet

As at December 31, *($000's)*	2008	2007 *(restated – Note 18)*
Assets		
Cash and items in transit	91,238	60,911
Securities *(Note 3)*	1,456,089	1,260,058
Accounts receivable and other assets	13,888	4,713
Loans *(Note 4)*	416,998	562,639
Capital assets *(Note 5)*	2,619	3,258
Derivative financial assets	18,817	14,947
Assets of discontinued operations *(Note 17)*	3,150	9,711
	2,002,799	1,916,237
Liabilities		
Accounts payable and accrued liabilities	10,394	18,280
Members' deposits *(Note 6)*	1,746,246	1,487,679
Loans and notes payable *(Note 7)*	14,984	139,676
Derivative financial liabilities	18,817	14,947
Liabilities of discontinued operations *(Note 17)*	1,251	7,391
	1,791,692	1,667,973
Members' Equity		
Common share capital *(Note 10)*	180,330	176,377
Retained earnings	28,551	71,768
Accumulated other comprehensive income	2,226	119
	211,107	248,264
	2,002,799	1,916,237

Commitments *(Note 14)*

See accompanying notes.

Signed on behalf of the Board.

Penny Reeves

G. Penny Reeves, *Chair*

Ray Coates

Ray Coates, *First Vice Chair*

Consolidated Statement of Operations

Year ended December 31, *($000's)*	2008	2007 *(restated – Note 18)*
Financial income		
Interest on securities	54,706	59,498
Interest on loans	19,499	21,313
	74,205	80,811
Financial expenses		
Interest on members' deposits	54,700	60,599
Interest on loans and notes	1,818	2,787
	56,518	63,386
	17,687	17,425
Provision for credit losses on commercial loans and mortgages	(110)	(140)
	17,577	17,285
Operating income *(Note 11)*	14,802	13,485
Operating expenses *(Note 11)*	(22,956)	(20,444)
Earnings before patronage dividends and the under noted	**9,423**	**10,326**
Patronage dividends *(Note 12)*	–	4,000
Earnings before the under noted	9,423	6,326
Change in estimated fair value of ABCP *(Note 3)*	(65,350)	(33,340)
Earnings (loss) before income taxes	(55,927)	(27,014)
Income taxes *(Note 13)*		
Current income tax expense (recovery)	(2,163)	(4,757)
Future income tax expense (recovery)	(8,573)	(571)
	(10,736)	(5,328)
Net earnings (loss) for the year from continuing operations	(45,191)	(21,686)
Gain on sale of discontinued operations, net of income tax *(Note 17)*	5,813	56,664
Earnings from discontinued operations, net of income tax *(Note 17)*	1,582	6,429
Net earnings (loss) for the year	(37,796)	41,407

See accompanying notes.

Consolidated Statements of Members' Equity and Comprehensive Income (Loss)

Year ended December 31, *($000's)*	**2008**	2007 *(restated – Note 18)*
Common Share Capital		
Balance, end of year *(Note 10)*	180,330	176,377
Accumulated Other Comprehensive Income		
Balance, beginning of year	119	–
Adjustment on implementation of new accounting standards	–	88
Restated opening accumulated other comprehensive income	119	88
Change in unrealized gains and (losses) on available-for-sale securities, (net of income tax of $647; 2007 – $10)	2,107	31
Other comprehensive income, net of income tax	2,107	31
Balance, end of year	2,226	119
Retained Earnings		
Balance, as previously reported	69,742	38,070
Prior period adjustment *(Note 18)*	2,026	868
Adjustment on implementation of new accounting standards	–	5
Restated opening retained earnings	71,768	38,943
Net earnings (loss) for the year	(37,796)	41,407
Share dividends *(Note 12)*	(6,747)	(10,760)
Recovery of income tax on share dividends	1,326	2,178
Balance, end of year	28,551	71,768
Total Members' Equity	**211,107**	**248,264**
Comprehensive Income (loss)		
Net earnings (loss) for the year	(37,796)	41,407
Other comprehensive income	2,107	31
Comprehensive Income (loss)	**(35,689)**	**41,438**

See accompanying notes.

Consolidated Statement of Cash Flows

Year ended December 31, *($000's)*	**2008**	2007 *(restated – Note 18)*
Cash resources provided by (used in):		
Operating activities		
Net earnings (loss) for the year	(37,796)	41,407
Earnings from discontinued operations *(Note 17)*	(1,582)	(6,429)
Gain on sale of retail credit card business *(Note 17)*	–	(56,664)
Gain on sale of merchant acquiring business *(Note 17)*	(5,813)	–
Items not affecting cash:		
Depreciation and amortization	966	875
Future income tax expense (recovery)	(8,741)	(785)
Adjustment to capital asset carrying values	637	–
Change in estimated fair value of ABCP *(Note 3)*	65,350	33,340
Provision for credit losses on commercial loans and mortgages	110	140
	13,131	11,884
Changes in non-cash operating components	(8,320)	11,176
Cash flows from operating activities of continuing operations	4,811	23,060
Cash flows from operating activities of discontinued operations	1,268	6,847
	6,079	29,907
Financing activities		
Increase in members' deposits	258,567	78,121
Increase (decrease) in loans and notes payable	(124,692)	89,768
Issuance of share capital, net of redemptions	3,953	1
Payment of share dividends	(6,747)	(10,760)
Reduction of income tax on payment of share dividends	1,326	2,178
	132,407	159,308
Investing activities		
Decrease (increase) in securities	(8,600)	267,312
Decrease (increase) in loans	145,531	(390,583)
Acquisition of capital assets	(963)	(1,347)
Proceeds from sale of retail credit card business *(Note 17)*	–	60,276
Proceeds from sale of merchant acquiring business *(Note 17)*	6,547	–
Investing activities from discontinued operations	–	1,659
	142,515	(62,683)
Increase in cash resources	281,001	126,532
Cash resources, beginning of year	683,436	556,904
Cash resources, end of year	964,437	683,436
Cash resources consist of:		
Cash	78,112	39,215
Cheques and other items in transit	13,126	21,696
Securities maturing within three months	873,199	622,525
	964,437	683,436

See accompanying notes.

1. **Significant accounting policies**

The financial statements of Credit Union Central Alberta Limited (Alberta Central) have been prepared in accordance with generally accepted accounting principles in Canada including the accounting requirements of the Office of the Superintendent of Financial Institutions Canada (OSFI) and Alberta Finance. The financial statements include the accounts of Alberta Central and its proportionate share in the assets, liabilities, revenues and expenses of its joint ventures, and reflect the following policies, which conform, in all material respects to Canadian generally accepted accounting principles:

a) **Changes in accounting policies**

Effective January 1, 2008 Alberta Central adopted three new accounting standards which are contained in Canadian Institute of Chartered Accountants Handbook Section 1535 – *Capital Disclosures*, Section 3862 – *Financial Instruments – Disclosures*, and Section 3863 – *Financial Instruments – Presentation*.

Section 1535 requires the disclosure of information related to the objectives, policies and processes for managing capital. Upon adoption of this standard, no changes were made to previously reported balances. Additional disclosure required as a result of the adoption of this standard is contained in Note 2.

Sections 3862 and 3863, which replaced Section 3861 – *Financial Instruments, Disclosure and Presentation*, require disclosure of both qualitative and quantitative information to enable users of financial statements to evaluate the nature and extent of risks arising from financial instruments and how those risks are managed. Upon adoption of these standards, no changes were made to previously reported balances. Additional disclosure required as a result of the adoption of this standard is contained in Note 2.

b) **Financial assets and liabilities**

All financial assets are classified as held for trading, available for sale, held to maturity or loans and receivables. All financial liabilities are classified as held for trading or other financial liabilities. Management determines the classification of its investments at initial recognition.

Held for trading

A financial asset or liability is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking. Derivatives are also categorized as held for trading unless they are designated as hedging instruments.

OSFI has issued Guideline D-10 *Accounting for Financial Instruments Designated as Fair Value Option* which provides application guidance in designating a financial instrument as held for trading upon initial recognition. The guideline provides further recognition and measurement criteria and disclosure requirements that are consistent with international accounting standards. Subject to requirements under OSFI guidelines, Alberta Central may designate any financial instrument as held for trading on initial recognition or adoption of the new standard if fair value can be reliably determined, irrespective of whether the instrument would otherwise qualify as held for trading.

All financial assets and liabilities classified or designated as held for trading are measured at fair value with changes in fair value (unrealized gains or losses) recognized in earnings. Any interest earned (or incurred) continues to be recognized on an accrual basis as interest income (or expense).

b) Financial assets and liabilities, continued

Available for sale

Available for sale financial assets are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. Financial assets classified as available for sale are measured at fair value with changes in fair value (unrealized gains or losses) recognized in other comprehensive income rather than earnings. Changes in fair value are accumulated under a balance sheet category called accumulated other comprehensive income. When unrealized gains and losses become realized through sale or impairment, they are reclassified from accumulated other comprehensive income to earnings. Any interest earned continues to be recognized on an accrual basis as interest income. Securities classified as available for sale which do not have a readily available market value are recorded at cost.

Held to maturity

Held to maturity financial assets have fixed or determinable payments and fixed maturities that management has the positive intention and ability to hold to maturity. If Alberta Central were to sell other than an insignificant amount of held to maturity assets, the entire category would be reclassified as available for sale. Held to maturity financial assets are measured at amortized cost.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those that Alberta Central intends to sell immediately or in the short term, or those designated as available for sale. Financial assets classified as loans and receivables are accounted for at amortized cost.

Other financial liabilities

Financial liabilities, except for derivatives, are measured at amortized cost unless classified as held-for-trading (or designated as such under the fair value option).

Fair values for financial instruments traded in an active market have been determined by the quoted market bid price. Where independent quoted market prices are not available, fair values have been determined based on the quoted market price for similar securities or through valuation techniques.

Transaction costs are expensed as incurred for financial instruments classified or designated as held for trading and are capitalized upon initial recognition for other financial instruments.

Other comprehensive income (loss) is included on the consolidated balance sheet as a separate component of members' equity and includes unrealized gains and losses on available for sale securities and where applicable, unrealized gains and losses on cash flow hedging instruments.

Alberta Central enters into various derivative contracts in the normal course of its business, including interest rate swaps, index options and foreign exchange forwards. The instruments are used to meet the needs of member credit unions and as part of Alberta Central's asset/liability management. Other than credit risk, Alberta Central does not accept any net exposure to derivative contracts entered into on behalf of member credit unions as it enters into offsetting contracts with other financial institution counterparties. Derivative assets and liabilities are marked to market with net changes in value recorded in earnings.

Embedded derivatives

Embedded derivatives are components within a financial instrument or other contract that have features similar to a derivative. Embedded derivatives must be separated from the host instrument and accounted for separately if the economic risks and characteristics of the embedded derivative are not closely related to the economic characteristics and risks of the host instrument and the host instrument is not already measured at fair value with changes in fair value recognized in earnings. Where Alberta Central is required to separate an embedded derivative from its host instrument but is unable to measure the fair value of the embedded derivative separately, the entire instrument is treated as a held for trading financial instrument measured at fair value with changes in fair value measured in earnings.

c) **Provision for losses**

Alberta Central maintains an allowance for impairment to absorb losses in its loan portfolios. This allowance is determined by regular management reviews of each loan to identify impairment. A specific allowance is recorded to reduce the carrying amount of loans to their estimated realizable values. Estimated realizable amounts are determined by discounting the expected future cash flows at the effective interest rate inherent in the loans. In addition, a non-specific allowance based on management's estimate and an overall evaluation of risk in the loan portfolio is made in recognition for losses not specifically identified on an item-by-item basis.

d) **Equity investment**

Alberta Central uses the equity method to account for an investment over which it exercises significant influence. Under this method, Alberta Central's share of the net earnings or loss of the investment is recorded in operating income. The book value of the investment is adjusted for the share of earnings and distributions received from the investee. Investments are written down to recognize losses in the value of the investment that are other than temporary.

e) **Depreciation and amortization**

Capital assets are depreciated on a straight-line basis over periods ranging from three to ten years.

f) **Income taxes**

Alberta Central follows the liability method of accounting for income taxes. Under this method, future tax assets and liabilities are recognized for the tax consequences attributable to differences between the financial statement carrying amounts of assets and liabilities and their respective tax bases. The future tax assets and liabilities are calculated using enacted or substantively enacted tax rates that will be in effect when the differences are expected to reverse.

g) **Measurement uncertainty**

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the period. Actual results could differ from those estimates.

h) **Variable interest entities**

The Canadian Institute of Chartered Accountants (CICA) Accounting Guideline 15 (AcG 15) "Consolidation of Variable Interest Entities" (VIEs) provides guidance for applying the principles in CICA Handbook Section 1590 "Subsidiaries" to VIEs. AcG 15 defines a VIE as an entity which either does not have sufficient equity at risk to finance its activities without additional subordinated financial support or where the holders of equity at risk lack the characteristics of a controlling financial interest. AcG 15 defines the Primary Beneficiary as the entity that is exposed to a majority of the VIE's expected losses or is entitled to a majority of the VIE's expected residual returns, or both. The Primary Beneficiary is required to consolidate the VIE.

As a result of applying AcG 15, it was determined that CUETS, one of Alberta Central's joint ventures, is the primary beneficiary of CUETS Acquiring Inc. and therefore CUETS Acquiring Inc. is consolidated with CUETS (Note 17).

i) **Disposal of long-lived assets and discontinued operations**

Components of Alberta Central held for sale or sold during the year are reported as discontinued operations if the operations and cash flows of the components will be eliminated from the ongoing operations as a result of the disposal transaction and Alberta Central will not have continuing involvement in the operations of the components after the disposal transaction (Note 17).

j) **Future accounting changes**

The Canadian Accounting Standards Board (AcSB) confirmed January 1, 2011 as the date International Financial Reporting Standards (IFRS) will replace current Canadian standards and interpretations as Canadian generally accepted accounting principles (Canadian GAAP) for publicly accountable enterprises. Alberta Central will begin reporting under IFRS in 2011 with comparative data for 2010. IFRS uses a conceptual framework similar to Canadian GAAP, but there could be significant differences in recognition, measurement and disclosures that will need to be addressed.

Alberta Central is participating with other Canadian credit unions and credit union centrals in a national project to assess the likely impact the introduction of IFRS will have on financial reporting and accounting policies and to identify conversion issues. An external financial accounting and reporting advisor has been engaged as a technical resource to the project. The project is to provide various implementation tools, including position papers and diagnostic, technical and implementation workshops. Periodic updates detailing progress are provided to Alberta Central's senior executives and to the Audit and Finance Committee. A more detailed analysis and evaluation of the financial impact of transitional issues will be completed in 2009.

2. **Financial risk management**

Alberta Central's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Alberta Central's aim is to achieve an appropriate balance between risk and return and minimize potential adverse effects on the company's financial performance.

Credit risk

Alberta Central takes on exposure to credit risk, which is the risk that a counterparty will cause a financial loss for Alberta Central by failing to discharge an obligation. Credit exposures arise principally in lending activities that lead to loans and investment activities that bring debt securities and other bills into Alberta Central's asset portfolio. There is also credit risk in off-balance sheet financial instruments such as unfunded loan commitments and letters of credit.

Alberta Central, as the manager of the provincial credit union system liquidity pool, is responsible to develop an earning asset base while providing for borrowing needs of credit unions and their members. Alberta Central's lending function focuses on the provision of loans to member credit unions and

is closely integrated and coordinated with Alberta Central's liquidity management role. Alberta Central does provide commercial lending, however total commercial loans, leases, guarantees, investments in mortgage pools and investments in non-credit union borrowing members shall not exceed 150% of Alberta Central's members' equity as at the end of the previous fiscal year.

Alberta Central structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to industry segments. Such risks are subject to an annual or more frequent review by management, when considered necessary.

Alberta Central employs and is committed to a number of important principles to manage credit exposures, which include:

- a Credit Committee of the Board whose duties include approval of lending policies, establishment and delegation of loan limits and approval of larger credits;
- delegated lending authorities, which are clearly communicated to personnel engaged in the credit granting process, a defined approval process for loans in excess of those limits and the review of larger credits by senior management personnel prior to recommendation to the Credit Committee of the Board;
- employment of personnel engaged in credit granting who are qualified and experienced in lending;
- lending policies which are communicated to employees whose activities and responsibilities include credit granting and risk assessment;
- annual reviews of loans;
- independent reviews by the internal audit group, which includes reporting the results to senior management and Alberta Central's Audit and Finance Committee.

Alberta Central's fair value estimate of its holdings of asset-backed commercial paper represents management's best estimate of the current value of the instruments, taking into account changes in market rates and credit risk since their origination (Note 3). There have been no other significant changes in credit risk from the prior year.

The table below shows Alberta Central's total exposure to credit risk at December 31, 2008 without taking account of any collateral held or other credit enhancements.

Credit Risk Exposure by Portfolio	Outstanding	Undrawn Commitments	Total Exposure
Loans			
Credit unions	216,462	1,350,836	1,567,298
Commercial loans and mortgages	172,574	78,657	251,231
Cooperatives	1,220	20,481	21,701
Celero Solutions	21,804	8,722	30,526
Employee mortgages	5,004	–	5,004
	417,064	1,458,696	1,875,760

At December 31, 2008, Alberta Central's gross credit risk exposure was $1,875,760. This represents a decrease of 2.5% from 2007 with most of the decrease in exposure from credit union loans. At December 31, 2008, Alberta Central had no loans that were past due or impaired.

2. Financial risk management, continued

Alberta Central's credit portfolio remains diversified across the industry sectors presented in the table below:

Risk Concentration by Customer and Industry	Outstanding	% of Net Carrying Value
Finance and insurance	266,646	63.9
Real estate	93,497	22.5
Hospitality	39,113	9.4
Health care	17,222	4.1
Retail	586	0.1
	417,064	100.0

Liquidity risk

Liquidity risk is the risk that Alberta Central will encounter difficulty in meeting obligations associated with financial liabilities when they fall due. Alberta Central's sources of funding are deposits from credit unions, its commercial paper program and lines of credit with Credit Union Central of Canada.

The majority of deposits from credit unions are required by regulation as Alberta Central is the prescribed liquidity manager for Alberta's credit unions. Alberta Central's by-laws require Alberta credit unions to maintain a minimum of one percent of their assets as share capital in Alberta Central. Credit unions are also required to maintain liquidity deposits at Alberta Central such that the total liquidity deposits and share capital with Alberta Central comprise nine percent of the credit union's liabilities.

Alberta Central participates with other Canadian credit union centrals in a national liquidity arrangement. Under the terms of the governing *National Liquidity Fund Agreement*, participating credit union centrals are required to keep two percent of their respective provincial system's assets in segregated accounts of liquid assets and a further four percent of their provincial system's assets in certain qualifying liquid assets. The securities may be used to provide liquidity to any one or more of the participating centrals.

Provincial legislation also requires Alberta Central to maintain six percent of credit union system assets in certain qualifying liquid assets.

As a percentage of system assets, Alberta Central's liquidity reserves, when measured by year end balances were in excess of the requirements under the *National Liquidity Fund Agreement* and those under provincial legislation.

Contractual maturities for financial liabilities at December 31, 2008 are shown in the table below:

	Less than 1 Year	From 1 – 3 Years	Greater than 3 Years	Total
Accounts payable and accrued liabilities and liabilities of discontinued operations	11,645	–	–	11,645
Members' deposits	1,731,446	10,000	4,800	1,746,246
Loans and notes payable	14,984	–	–	14,984
Derivative financial liabilities	2,636	8,214	7,967	18,817
	1,760,711	18,214	12,767	1,791,692

Market risk

Market risk is comprised of three types of risk: foreign exchange risk, interest rate risk and other price risk.

Foreign exchange risk

Foreign exchange risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. Foreign exchange risks exist mainly as a result of the existence of financial assets and financial liabilities denominated in foreign currencies. The risk associated with changing foreign currency values is managed under Alberta Central's *Investment Policy* which limits amounts that can be maintained in various currencies. At December 31, Alberta Central's net exposure to the US dollar was $93 (2007 – $3,577) and to the UK Pound Sterling was $328 (2007 – $96).

Interest rate risk

Interest rate risk is the risk that net interest income will be adversely impacted by changes in market interest rates. This risk occurs as a result of disparity in the re-pricing of interest rate sensitive financial assets and interest rate sensitive financial liabilities. Alberta Central uses gap analysis and simulation modeling to monitor and manage interest rate risk. Gap analysis measures the difference between the amount of assets and liabilities that re-price in a particular time period.

Alberta Central's interest rate sensitivity position as at December 31, 2008, as presented below, is based upon the contractual re-pricing and maturity dates of assets and liabilities. The table shows the cumulative gaps at various intervals. Consistent with the assumption that Accord ABCP will be converted to floating rate notes (Note 3), the related assets have been grouped in the 'less than one year' category, reflecting management's assumption that the interest rate will re-price during that time period.

Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. Alberta Central's most significant other price risk relates to its holdings of asset-backed commercial paper (Note 3).

2. Financial risk management, continued

	Less than 1 Year	From 1 – 5 Years	Greater than 5 Years	Non-Interest Sensitive	Total
Assets					
Cash and items in transit	75,157	–	–	16,081	91,238
Securities	1,526,172	9,250	–	(79,333)	1,456,089
Loans	347,731	69,295	37	(65)	416,998
Other assets	–	–	–	38,474	38,474
	1,949,060	78,545	37	(24,843)	2,002,799
Weighted average interest rate	2.36%	4.76%	2.25%	–	2.48%
Liabilities & Members' Equity					
Members' deposits	1,721,898	14,800	–	9,548	1,746,246
Loans and notes payable	14,964	–	–	20	14,984
Other liabilities	–	–	–	30,462	30,462
Members' equity	180,330	–	–	30,777	211,107
	1,917,192	14,800	–	70,807	2,002,799
Weighted average interest rate	2.42%	3.19%	–	–	2.34%
Total interest rate sensitivity gap	31,868	63,745	37	(95,650)	–
Cumulative interest rate sensitivity gap	31,868	95,613	95,650	–	–

Capital management

Alberta Central's objectives when managing capital, which is a broader concept than members' equity on the face of the balance sheet, are:

- To comply with the capital requirements set by the regulators;
- To maintain a strong capital base to support the credit union system and the development of Alberta Central's business; and
- To maintain a consistently strong credit rating and investor confidence.

Alberta Central's capital levels are regulated under federal guidelines issued by OSFI. Federal regulation requires Alberta Central to maintain a borrowing multiple, the ratio of debt to regulatory capital, of 20:1 or less.

Provincial regulation overseen by Alberta Finance and Enterprise requires that Alberta Central maintain a borrowing multiple, the ratio of debt to regulatory capital, of 15:1 or less.

For purposes of these multiple calculations, borrowings are comprised of members' deposits, loans and notes payable and certain derivative financial liabilities.

For the year ended December 31, 2008, Alberta Central's capital levels exceeded both its regulatory and internal capital requirements.

3. Securities

	2008	2007
Government	27,775	138,035
Corporate	1,407,394	1,100,142
Credit Union Central of Canada	3,728	3,645
Mortgage pooling funds	2,192	4,578
	1,441,089	1,246,400
Accrued interest receivable	15,000	13,658
	1,456,089	1,260,058
Securities designated as held for trading	132,666	196,082
Securities classified as available for sale	1,320,894	1,059,376
Securities designated as loans andreceivables	2,529	4,600
	1,456,089	1,260,058

In accordance with the *National Liquidity Fund Agreement*, investments with a fair value of $312,956 (2007 – $265,997) are maintained in a segregated safekeeping account (Note 2).

Non-bank sponsored asset-backed commercial paper

Alberta Central holds $224,500 principal of non-bank sponsored asset-backed commercial paper. The Canadian market for non-bank sponsored asset-backed commercial paper suffered a liquidity disruption in August 2007, following which a group of financial institutions and other parties agreed in principle under the Montreal Accord ("Accord") to a long-term proposal and interim agreement to exchange the affected ABCP ("Accord ABCP") for longer-term notes that are intended to match the maturities of the underlying assets. The Accord provided for a standstill period during which participating investors, commercial paper issuers and liquidity providers would not take action that would precipitate an event of default. A Pan-Canadian Investors Committee, consisting of major investors, was established to oversee the orderly restructuring of these instruments and retain legal and financial advisors to oversee the proposed restructuring process. Alberta Central is a member of the Pan-Canadian Investors Committee.

At the dates of acquisition, these short term investments were rated R1 (High) by Dominion Bond Rating Service (DBRS), the highest credit rating issued for commercial paper. They have not traded in an active market since August 2007 and there are currently no market quotations available.

On December 23, 2007, the Pan-Canadian Investors Committee provided an overview of the proposed restructuring plan. The restructuring plan was approved by the required majority of Note holders on April 25, 2008. Under the terms of the plan, all the Accord ABCP is to be restructured into three basic categories:

- Accord ABCP backed solely by traditional assets ("Exclusively Traditional Assets");
- Accord ABCP backed by synthetic collateralized debt obligations or a combination of traditional assets and synthetic collateralized debt obligations ("Synthetic and Hybrid Assets");
- Accord ABCP backed, in whole or in part, by US sub-prime assets or home equity loans that the Committee expects may be subject to significant risk of suffering losses ("Ineligible Assets").

3. Securities, continued

Notes backed by Synthetic and Hybrid Assets will be pooled with other investors into one of two newly created special purpose entities called Master Asset Vehicles (or MAV 1 and MAV 2). Under the plan, credit facilities used to fund collateral calls ("Margin Funding Facilities") will be established for each of MAV 1 and MAV 2 to further enhance the stability of the pooled assets by increasing the available additional collateral support which may potentially be called upon in the future. MAV 1 participants will fund their own pro rata share of the margin funding facility while in the case of MAV 2, a third-party margin funding facility will be established and funded by a group of third-party lenders. Alberta Central is a MAV 2 participant.

Investors' holdings of Accord ABCP backed by Exclusively Traditional Assets or Ineligible Assets will be restructured separately as traditional asset (TA) tracking notes or ineligible asset (IA) tracking notes of a third Master Asset Vehicle (MAV 3).

Based on this and other public information, it is estimated that the $224,500 principal amount of Accord ABCP in which Alberta Central has invested will be restructured into the following replacement notes:

- $35,150 of MAV 3 TA tracking long term floating rate notes representing the Exclusively Traditional Assets, with a legal maturity ranging from five to thirty years (reflecting the longest maturity of the related underlying assets) and an expected maturity of approximately eight years. The notes will earn interest based on the return generated by the underlying assets, net of expenses.
- $182,300 of MAV 2 long term floating rate notes with a maturity of approximately eight years, representing the Synthetic and Hybrid Assets. Alberta Central expects to receive replacement senior Class A-1 and Class A-2 and subordinated Class B, Class C and tracking notes with par values and coupon rates based on the month Canadian Deposit Offering Rate (CDOR) as follows:

	Par Value	Coupon Rate
Class A-1	99,550	CDOR minus 50 basis points
Class A-2	57,168	CDOR minus 50 basis points
Class B	10,378	CDOR minus 50 basis points
Class C	5,168	CDOR plus 20 percent
Tracking notes:	10,036	Return of underlying assets, net of expenses

- $7,050 of MAV 3 IA tracking long term floating rate notes representing Ineligible Assets with a legal maturity ranging from eighteen to thirty-one years (reflecting the longest maturity of the related underlying assets) and an expected maturity of approximately eight years. The notes will earn interest based on the return generated by the underlying assets, net of expenses.

On December 11, 2008, the Pan-Canadian Investors Committee announced that an agreement in principle had been reached among various key participants in the restructuring which would result in several significant improvements to the restructuring plan:

- Provision of an additional margin funding facility to rank senior to all other previously agreed margin funding facilities;
- An initial moratorium period during which the ability to make collateral calls on MAV 1 or MAV 2 will be limited;
- A widening of spread loss triggers, which will be relevant upon expiry of the moratorium, rendering the triggering of collateral calls more remote.

On December 24, 2008, the Committee announced that the governments of Canada, Quebec, Ontario and Alberta, together with certain participants in the restructuring will provide additional margin facilities to support the proposed restructuring plan. Further enhancements to the transaction were also announced, including an extension of the previously announced moratorium from 14 to 18 months from the date of implementation and the elimination of the circumstances in which the moratorium could have been terminated earlier.

In the absence of an active market for the Accord ABCP, Alberta Central has estimated the fair value of these assets using a probability weighted discounted cash flow valuation model incorporating management's best estimates of credit risk attributable to underlying assets, market interest rates and other factors that a market participant would consider for such investments. Management has assumed a 100% probability of success of the Accord under the terms outlined in the plan. The discount rates underlying the cash flow valuation are based on appropriate forward-credit indices, adjusted for estimated premiums to reflect the expected lack of liquidity in the restructured notes. Note coupon rates and maturities are based on the anticipated terms of the restructuring plan.

Based on these assumptions, Alberta Central recorded a reduction in the estimated fair value of the Accord ABCP of $61,433 (2007 – $33,340) in the consolidated statement of operations. At December 31, 2008, the estimated fair value of the Accord ABCP was $129,727 (2007 – $191,160) and was included in corporate securities. This decrease in fair value reflects the increased market discount rates resulting from the deterioration in the credit markets through 2008.

As the fair value of Accord ABCP has been estimated using a probability weighted discounted cash flow model based on the assumptions noted above, it is reasonably possible that changes in conditions in the near term could require a material change in the recognized amount. An increase of 25 basis points in the discount rate would result in a $2,984 decrease in the fair value of the Accord ABCP and a decrease of 25 basis points would result in a $3,071 increase in the fair value of the Accord ABCP.

On January 12, 2009, the Superior Court of Ontario granted the plan implementation order and the plan for restructuring the Accord ABCP was implemented on January 21, 2009. The restructured notes received by Alberta Central did not vary significantly from those expected as outlined above.

On January 21, 2009, DBRS announced the following ratings on the restructured notes:

- "A" rating on Class A-1 and A-2 notes of MAV 1 and MAV 2
- "AAA" rating on MAV 3 notes in Classes 5A, 7A and 15A
- "AA (high)" rating on MAV 3 notes in Classes 10A and 12A
- "A (low)" rating on MAV 3 notes in Class 16A

The rated notes benefit from subordination provided by the B notes in each class. The MAV 2 Class B and C notes and remaining MAV 3 notes were not rated by DBRS. Alberta Central holds $184,394 of notes rated by DBRS as "A" or higher.

Bank sponsored asset-backed commercial paper

Alberta Central has investments totaling $22,793 in two bank-sponsored ABCP investments which suffered a liquidity disruption and were restructuring during 2008. The restructuring plans were generally similar to the Accord ABCP plans with the assets restructured into long-term floating rate notes to match the maturity of the underlying assets. The notes mature in approximately five to eight years and bear interest at rates ranging from the one month CDOR to the one month CDOR plus 35 basis points. A reduction of $3,917 in the estimated fair value of the bank sponsored asset-backed commercial paper was recorded in the consolidated statement of operations.

4. Loans

	2008	2007
Credit unions	216,462	383,858
Cooperatives	1,220	1,284
Commercial loans and mortgages	172,574	149,590
Celero Solutions *(Note 9)*	21,804	22,304
Employee mortgages	5,004	5,251
	417,064	562,287
Less: non-specific allowance on commercial loans and mortgages	(865)	(755)
	416,199	561,532
Accrued interest receivable	799	1,107
	416,998	562,639

5. Capital assets

			2008	2007
	Cost	Accumulated Depreciation	Net Book Value	Net Book Value
Equipment	4,376	4,150	226	237
Operating software and development costs	4,450	3,742	708	1,269
Leasehold improvements	5,407	4,443	964	1,000
Furniture and fixtures	3,059	2,338	721	752
	17,292	14,673	2,619	3,258

6. Members' deposits

	2008	2007
Current accounts and demand deposits	178,071	81,840
Money market deposits	403,547	338,821
Statutory liquidity deposits	1,155,080	1,054,786
	1,736,698	1,475,447
Accrued interest payable	9,548	12,232
	1,746,246	1,487,679

7. **Loans and notes payable**

	2008	2007
Commercial paper	14,984	96,044
Credit Union Central of Canada	–	43,632
	14,984	139,676

Alberta Central has entered into an agreement with Credit Union Central of Canada for a line of credit to a maximum of $50,000. Pursuant to the terms of the *National Liquidity Fund Agreement*, Alberta Central is obliged to provide a general security interest over Alberta Central's property on demand by Credit Union Central of Canada to secure this line of credit. Amounts are due on demand and bear interest at rates established by the Credit Union Central of Canada Board of Directors. At December 31, 2008, the rate was the bank prime rate less 1.50% per annum.

Alberta Central is authorized to issue commercial paper to a maximum of $250,000.

8. **Joint venture**

Alberta Central has a 50% interest in Credit Union Payment Services, a payment processing joint venture. Alberta Central's proportionate share of its investment in the Credit Union Payment Services joint venture before inter-entity eliminations is summarized below:

	2008	2007
Balance Sheet		
Accounts receivable and other assets	1,205	692
Capital assets	580	1,097
	1,785	1,789
Bank indebtedness	910	220
Accounts payable and accrued liabilities	822	763
Equity	53	806
	1,785	1,789
Statement of Earnings		
Operating income	7,964	7,790
Operating expenses	7,911	6,984
Earnings for the year	53	806
Statement of Cash Flows		
Cash flows resulting from (used in):		
Operating activities	271	518
Financing activities	(608)	(597)
Investing activities	(353)	(613)
Decrease in cash resources	(690)	(692)

9. Equity investment

Alberta Central has a 41.9% direct interest in Celero Solutions ("Celero") which is a joint venture of Alberta Central and various other cooperative entities for the purpose of providing information technology services. While Celero is legally structured as a joint venture, it does not qualify as such for accounting purposes. Accordingly, Alberta Central accounts for its investment in Celero on the equity basis. Prior to October 1, 2007, Alberta Central had a 33.4% direct and an 8.5% indirect interest in Celero through its participation in the CUETS joint venture (Note 17). Under the terms of the *Celero Solutions Joint Venture Agreement*, a re-determination of ownership interests was conducted in 2008 and Alberta Central's ownership interest was reduced to 31.4% effective January 2009.

Alberta Central is liable in proportion to its indirect interest in Celero's 49% subsidiary Everlink Payment Services Inc. ("Everlink"), for all of Everlink's covenants and obligations under an *Asset Purchase Agreement* and ancillary agreements relating to Everlink's acquisition of switching assets. These covenants and obligations expire in 2012 and 2013 respectively. Alberta Central has entered into financing agreements with Everlink, consisting of a line of credit to a maximum of $2,000 and an authorized overdraft facility to a maximum of $6,375 Canadian and $100 US. Celero has provided a guarantee on these agreements in proportion to its interest in Everlink. At December 31, 2008 there were no draws against the line of credit or the authorized overdraft facility.

Celero has entered a *Software License Agreement* in respect of a new banking platform for Celero's credit union clients under which Celero is committed to pay a total of $21,119 in software maintenance fees over the next seven years. Celero has entered into agreements with credit unions to recover these costs through operating fees over the term of the agreements.

Pursuant to various addendums to the *Software License Agreement*, Celero is committed to pay $10,540 in ancillary product maintenance and support fees over the next seven years.

Celero has entered an agreement to upgrade its infrastructure under which Celero is committed to pay $18,138 over the next six years.

Celero also has obligations under various agreements for equipment, licensing, maintenance and professional fees.

Alberta Central is liable in proportion to its ownership interest in Celero, for all of Celero's covenants and obligations under these agreements.

Celero's operations are funded by loans from its owners (Note 4) bearing interest at the prime rate. Under a *Joint Venture Lender Agreement* dated December 17, 2007, Celero has a line of credit facility to a maximum of $40,000 with interest payable monthly at the Canadian prime rate. Under the terms of the same agreement, Celero also has a $5,000 overdraft facility with Alberta Central bearing interest at the Canadian prime rate. To December 31, 2008, Celero had drawn $11,700 (2007 – $13,200) on the line of credit facility and $3,673 (2007 nil) on the overdraft facility. The facilities are secured by a General Security Agreement over all assets of Celero. All liabilities of Celero remain a liability of each owner in proportion to its ownership interest.

Alberta Central charged Celero $3,921 (2007 – $4,073) for various administrative and facilities services. Celero charged Alberta Central $843 (2007 – $758) for information technology services. At December 31, 2008, Alberta Central had a payable of $93 to Celero (2007 – $37) in respect of operating activities. Alberta Central's share of Celero's loss for the year ended December 31, 2008 amounted to ($5,415) (2007 – ($5,873)) and is included in operating income. Alberta Central's equity investment in Celero is included in accounts payable and accrued liabilities.

10. **Common share capital**

Authorized – unlimited number at $5 per share.
Issued and outstanding – 36,066,060 shares (2007 – 35,275,345).

	2008	2007
Balance, beginning of the year	176,377	176,376
Issued	4,153	1
Redeemed	(200)	–
Balance, end of the year	180,330	176,377

Alberta Central's bylaws require member credit unions to maintain common share capital in Alberta Central in an amount equal to one percent of each credit union's assets as at the end of the credit union's most recent fiscal year.

11. **Operating income and operating expenses**

	2008	2007
Operating Income		
Financial services	6,691	5,846
Member dues	3,684	3,075
Other	4,427	4,564
	14,802	13,485
Operating Expenses		
Personnel	10,290	9,632
Property and equipment	4,858	4,079
Administration and other	5,103	4,910
Organization	2,705	1,823
	22,956	20,444

12. **Dividends**

Share capital dividends of $6,747 (2007 – $10,760) were calculated using members' minimum monthly common share capital account balances and the average monthly prime interest rate less one percent (2007 – average monthly prime interest rate).

In 2007, patronage dividends of $4,000 were calculated using a formula based on the usage of products and services provided by Alberta Central and its joint ventures. No patronage dividend amount was accrued as payable in 2008.

13. Income taxes

The combined federal and provincial substantively enacted income tax rate applicable to Alberta Central is 19.6% (2007 – 20.2%). Income taxes calculated at substantively enacted rates differ from the provision included in the statement of earnings for the following reasons:

	2008	2007
Income taxes (recovery) at substantively enacted rates	(10,938)	(5,466)
Increase in income taxes (recovery) resulting from:		
Tax not recognized on income or loss from subsidiary of equity investments	(26)	(114)
Other	228	252
Provision for (recovery of) income taxes	(10,736)	(5,328)

14. Commitments

Alberta Central is party to financial instruments with off-balance sheet risk that, in the normal course of operations, are used to meet its own and its credit union members' financial needs. These instruments include commitments to extend credit, standby letters of credit and financial guarantees. The amounts in the table below indicate the notional amounts of these off-balance sheet arrangements.

	2008	2007
Financial instruments whose contract amounts could represent credit risk:		
Commitments to extend credit	1,458,696	1,362,042
Standby letters of credit and financial guarantees	10,308	7,925

Alberta Central has the following operating lease commitments for premises ending December 31, 2011:

2009	2,950
2010	2,950
2011	2,950
	8,850

15. Pension plans

Alberta Central contributes annually to a defined contribution pension plan for employees. The annual pension expense of $353 (2007 – $305) is included in personnel expense.

16. Directors' remuneration

	2008	2007
Remuneration paid to directors	128	163
Expenses paid on behalf of directors	145	153
	273	316

17. Discontinued operations

Prior to October 1, 2007, Alberta Central had a 50% interest in CU Electronic Transaction Services (CUETS), a credit card processing entity. Effective October 1, 2007, the net assets related to the retail credit card business of the CU Electronic Transaction Services joint venture were sold to CUETS Financial Ltd., a wholly owned subsidiary of MBNA Canada Bank for an after-tax gain of $56,664. Effective January 1, 2008, the net assets related to the merchant acquiring business were sold to First Data Corporation. The assets sold and consideration received was:

	Merchant Acquiring	Alberta Central's Share
Net assets sold		
Investment in UNPSolutions	228	114
Liabilities assumed	(26)	(13)
	202	101
Consideration received		
Cash	13,241	6,620
Gain on sale before the following	13,039	6,519
System development related to merchant business	(932)	(466)
Costs incurred on sale	(148)	(74)
Gain on sale of merchant business before income tax	11,959	5,979
Income tax		166
Gain on sale of merchant business, net of income tax		5,813

The related assets and liabilities have been reported as assets of discontinued operations and liabilities of discontinued operations on the consolidated balance sheet. The related results of operations have been presented as discontinued operations in the consolidated statement of earnings and cash flows for the periods presented.

Alberta Central's proportionate share of the carrying values of the net assets related to the discontinued operations after inter-entity eliminations is summarized below:

	2008	2007 (restated – Note 18)
Cash	1,139	2,195
Accounts receivable and other assets	42	563
Investments	1,969	6,487
Capital assets	–	466
	3,150	9,711
Accounts payable and accrued liabilities	1,251	6,652
Undistributed equity	1,899	3,059
	3,150	9,711

17. Discontinued operations, continued

The earnings from discontinued operations of the retail credit card and merchant acquiring businesses are summarized as follows:

	2008	2007 *(restated – Note 18)*
Operating income	2,329	28,227
Operating expenses	362	19,692
Earnings from discontinued operations before income tax	1,967	8,535
Income tax	385	2,106
	1,582	6,429

18. Prior period adjustment

During the year, CUETS determined that the prior years' income in the joint venture was understated by $4,100 and the financial statements of the joint venture have been restated. The comparative figures for 2007 in these financial statements have been adjusted to correctly reflect Alberta Central's share of the change in the assets and liabilities of discontinued operations; the increase in earnings from discontinued operations, net of income tax and the increase in retained earnings.

19. Comparative figures

Certain of the 2007 comparative figures have been reclassified to conform to the current year's presentation.

20. Proposed merger

During 2008 Credit Union Central Alberta, SaskCentral and Credit Union Central of Manitoba signed a *Memorandum of Understanding* committing the three centrals to the joint development of a business plan for a new merged prairie central. The proposed merger of the three centrals must be approved by the membership of each central and is subject to regulatory approval.

- Credit unions are full-service financial institutions offering a competitive range of financial products and services to consumers, small and medium businesses and agribusinesses.
- Every credit union customer is both a member and a shareholder who participates in electing their credit union's board of directors and shares in the profits earned through share or patronage dividends.
- Credit unions share a common vision of working together to make our communities better places to live.

about the *credit union system*

Credit unions returned almost
$60 million in dividends
to Alberta members in 2008.

45 independent Alberta credit unions
serving over 200 communities in the province.

Member-owned credit unions in Alberta today:

- Nearly $16.5 billion in assets.
- Over 731,000 Albertans are credit union members.
- Approximately 3,300 Albertans are employed full-time by credit unions and their affiliates.
- Credit unions provide a province-wide network of ATMs and online banking.

The Alberta Credit Union System is Community-Focused

Credit unions are renowned for their community focus and responsible corporate citizenship. By remaining community based, locally owned and operated, and by offering substantial financial backing to local initiatives, credit unions across Alberta have maintained a leadership role in the arena of community involvement. Alberta Central, as a corporation, also plays an active role in building strong and vibrant communities. Year after year, Alberta Central and credit union employees, management and Board members continue to demonstrate that they care about their communities by donating time and money to worthy causes and local associations.

Our system's unwavering commitment to corporate social responsibility goes far beyond monetary value. The following are just some of the examples of how credit unions, Alberta Central and their staff are making a difference in their communities today.

Province wide – Agent4Change

2008 was the first year for the Alberta credit union system's first province-wide Agent4Change campaign.

Through a social media contest, the Agent4Change program was launched in February to find out what social issues were in the hearts and minds of Alberta's youth, and to identify a cause that credit unions could rally behind to make a positive change in Alberta's communities. Contestants signed up for the contest by submitting a five minute video, highlighting a cause or issue within their communities that they believed needed change.

The contest acquired submissions from 90 young, passionate Albertans from across the province, aged 18 to 24, wanting to make a difference in their communities. Many causes were represented including: affordable housing, youth drop-in centres, recycling and implementing greener practices in our every day lives.

In the end, the 10 finalist videos were sent to a public vote and combined with judges' scores. In both, Rob Aronson scored extremely well and became the first Agent4Change contest winner with his Spread the Love program. Rob presented a plan, involving young people in helping to feed the hungry, helping a social cause and building leadership skills in Alberta's youth at the same time.

Rob has been working with Alberta Central and credit unions across the province to implement the Agent4Change "*Spread the Love*" initiative. To launch this initiative, credit unions branches participated in a provide-wide event on Credit Union Day (October 16th) this past year, feeding the hungry and homeless in different Albertan communities.

Spread the Love

Community Savings stretched their Agent4Change "*Spread the Love*" celebration over the week of October 13th to 17th and had all 31 branches participate in the program.

Non-perishable food items were collected for local school lunch programs, food banks and homeless shelters throughout central and southern Alberta. Staff members also donated their time by making sandwiches at local community shelters and delivering lunches to schools and elderly residents. Members got into the spirit as well, bringing in items needed for the various projects and were rewarded with insulated lunch bags with an "I helped spread the love" message.

Over the course of the week, over 3,000 sandwiches were made, 300 pounds of food and supplies were donated and thousands of school children were provided with a nutritious lunch. Most importantly 24 communities and 145,000 members are more aware of the needs that exist within their realm of impact.

Both staff and members have since committed to assisting local organizations in their efforts to combat hunger within a province with such bounty. The message that we can help one sandwich at a time has even more resonance now that many in our midst are facing economic challenges.

Marlene Nelligan
Manager, Purchasing

Angel Tree

Each year, 1st Choice Savings spreads goodwill and happiness throughout Southern Alberta communities by sponsoring the Lethbridge Family Services' Angel Tree campaign.

In all of the 1st Choice Savings branches a Christmas tree is adorned with hundreds of white angel cards, each with a child's age and suggested gift written. A member selects an angel card, purchases a gift and returns it to the credit union branch. 1st Choice Savings collects all of the gifts and delivers them to Lethbridge Family Services, who distributes the gifts before Christmas.

In 2008, Lethbridge Family Services identified over 1,400 families in distress. By supporting Angel Tree, 1st Choice Savings helps the children of those families enjoy Christmas by providing them with a gift to unwrap and enjoy at Christmas time.

Last year a milestone was reached in the campaign's fifteen year history, as 1st Choice Savings staff and members gave Christmas gifts to more than 4,000 children.

Book Rapport

First Calgary Savings Book Rapport Programme of WordFest brings together authors and students through interactive presentations and writing workshops. Book Rapport hosts more than 70 authors in over 65 events, workshops and readings for children, youth and adults, and symbolizes First Calgary Savings' commitment to youth and education.

Since its inception, Book Rapport has brought together Calgary and area youth, from kindergarten to grade 12 to experience creative expression, unique ideas, new voices and an increased interest in the literary arts. The Book Rapport Programme involves working directly with local educators to customize programming to ensure the books and guests selected are relevant and timely. Youth enjoy everything from poets, novelists and storytellers to philosophers and playwrights.

The partnership between First Calgary Savings and WordFest began in 2003 and is recognized as an award-winning program. Each year, a special offer of one complimentary set of class tickets is extended to six First Calgary Savings' partner schools to schedule a free Book Rapport event.

Closed bond credit unions: *Calgary Police Credit Union Ltd., Canada Safeway Limited Employees Savings & Credit Union Ltd., CHEC Credit Union Ltd., Christian Credit Union, City Plus Credit Union Ltd., Industrial Savings & Credit Union Ltd., Khalsa Credit Union (Alberta) Ltd., Legacy Savings & Credit Union Ltd., Lethbridge Legion Savings & Credit Union Ltd., Pegasus Savings & Credit Union Ltd., River City Credit Union Ltd., Royglenor Savings & Credit Union Ltd., S.G.E. Savings & Credit Union Ltd., Shell Employees' Credit Union Ltd., SOC Savings and Credit Union Ltd., Stanco Credit Union Ltd., Strathfiner Credit Union Ltd., TransCanada Credit Union Ltd., University Hospitals Staff Credit Union Ltd.* **Closed bond credit unions serve specific employees or groups, such as employees of a particular company, church or profession.**

ALBERTA CENTRAL'S MISSION:

Supporting credit unions in meeting the expectations of members through the leadership and excellence of our people, products and services.

about *alberta central*

At Alberta Central our goal is to be a key strategic partner for Alberta credit unions.

Through our commitment to service and with the help of our 73 dedicated employees, we are helping our credit unions meet the expectations of their members. We continue to work side by side with our credit unions, with a single goal in mind: to help our system grow, prosper and achieve financial success.

CORE STRATEGIES:

Central has three core strategies to achieve its mission of supporting credit unions:

- *Deliver services that support credit union system development;*
- *Achieve strong and stable financial results;*
- *Have the organizational culture and staff to achieve its mission.*

Peter Davis
Assistant Vice President, Government Relations

Alberta Central's Services

LENDING

- credit union loan program
- commercial loan syndication program
- mortgage pooling
- agricultural, commercial, residential and consumer lending support
- development and marketing of operational manuals
- liaison for provincial and national lending committees, legislation and task forces

TREASURY

- liquidity and investment management
- foreign exchange
- derivative strategy
- asset liability management

PURCHASING AND SUPPLIES

- inventory management & distribution
- local and national product sourcing and procurement
- direct mail services
- custom printing

**GOVERNMENT RELATIONS/
STRATEGIC PLANNING/COMMUNICATIONS**

- facilitation of system strategic planning and decision making
- provincial and federal government relations support and advocacy
- system representation on national system and industry committees and affiliate organizations
- management of system communication programs

CORE PAYMENT SERVICES

- image-based cheque processing
- cheque imaging archival services
- remittance/lockbox processing
- bill payment processing
- CD-Rom services
- paper and e-statement processing services
- integrated document imaging and management services
- customer automated funds transfer (CAFT)
- automated funds transfer (AFT)
- wire transfer payments
- electronic data interchange
- ATM/POS settlement and reconciliation
- distribution/mailroom services
- cash processing services

- operation and support of banking systems
- Internet and telephone banking
- application and hosting services
- network services including Local Area Networks (LANs), Wide Area Networks (WANs), Metropolitan Area Networks (MANs), and Internet Service Provider (ISP) services
- custom product and application development
- applications integration
- high-availability infrastructure
- desktop computing
- business solutions consulting
- client care services

HUMAN RESOURCES TEAM

Alberta Central Affiliates

PARTNERS

Credit Union Central of Manitoba
Employees: 113
Assets: $1.93 billion
Owners: 48 Manitoba Credit Unions
System Assets: $14.4 billion

SaskCentral
Employees: 100
Assets: $5.2 billion (consolidated with Concentra)
Owners: 66 Saskatchewan Credit Unions
System Assets: $12.6 billion

JOINT VENTURES

Celero Solutions
Employees: 350
Clients: Over 150
Annual Operating Budget: Approximately $63 million
Owners: Alberta Central, Credit Union Central of Manitoba, SaskCentral, Concentra Financial

CUPS Payment Services
Employees: 165
Clients: 188
Transactions Processed: 142 million annually
Owners: Alberta Central, SaskCentral

INVESTMENTS

Credit Union Central of Canada (Canadian Central)
Employees: 47
Net Investment Income (after tax): $591,600
Net Trade Division Assessment: $9.1 million
Owners: Provincial Centrals and Other Partners

Concentra Financial
Employees: Over 380
Assets Under Administration: $21.0 billion
Corporate Assets: $3.8 billion
Owners: Provincial Centrals, Credit Unions, CUMIS, The Co-operators

Credential Financial Inc.
Employees: 234
Credit Union Partners: 246 across Canada
Assets Under Administration: $9.0 billion
Owners: Provincial Centrals (50%), CUMIS (50%)

Northwest Funds & Ethical Investments L.P.
Employees: 104
Clients: 225,000 Investors
Assets Under Management: $3.6 billion
Owner: Provincial Centrals (50%), Desjardins Group (50%)

The CUMIS Group Limited
Employees: 375
Locations: 7
Assets: Almost $1.0 billion
Owners: CUNA Mutual Group, Provincial Centrals and Other Partners

Alberta Central's Board and Management Team

BOARD OF DIRECTORS

Penny Reeves, *Chair*

Ray Coates, *First Vice Chair*

Jack Paterson, *Second Vice Chair*

Bruno Friesen, *Secretary*

Gerry Jensen, *Fifth Executive Committee Member*

Steve Blakely

Eric Dillon

Cam Durham

Dave Gregory

Randy Harper

Dave Munro

Bob Permann

Gail Stephanik-Keber

MANAGEMENT TEAM

Graham Wetter, *President & CEO*

Barry Johnson, *Executive Vice President*

Duane Blahun, *Vice President, CUPS Payment Services*

Anne Gillespie, *Vice President, Financial Reporting & Control*

Paul Rossmann, *Vice President, Strategy & Corporate Development*

Dick Williams, *Vice President, Financial Services*

Ray Belot, *Assistant Vice President, Audit*

Susan Borrows, *Assistant Vice President, Human Resources*

Peter Davis, *Assistant Vice President, Government Relations*

Pat Dolan, *Assistant Vice President, Treasury*

Apoorv Dwivedi, *Assistant Vice President, Strategy & Communications*

Chris Laxton, *Assistant Vice President, Risk Management*

CORPORATE SECRETARY

Susan Greenaway

CUPS PAYMENT SERVICES HELP DESK
(left to right) Pamela Eshpeter, Grainne Nolan, Madonna Barron, Bal Randhawa

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